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This brochure provides guidelines for State governments seeking to recover the costs of services provided by central service-type activities to grantee State departments and the indirect cost of grantee State departments. As a prerequisite to such recovery, States must develop and submit to the Department of Health, Education, and Welfare a formal statewide cost allocation plan for central support services. A formal plan for allocating indirect costs of each grantee department must also be submitted to that Federal agency which has the predominant dollar involvement in the department. This brochure describes, in general terms, the processes of indirect cost rate determination and presents instructions for the submission of rate proposals. Appended are Bureau of the Budget Circular A-87, "Principles for Determining Costs Applicable to Grants and Contracts with State and Local Governments"; sample cost allocation plan formats; sample negotiation agreements; and the criteria used to determine the assigned negotiation responsibilities of Federal agencies. (DE)

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A Guide for STATE GOVERNMENT AGENCIES

Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Department of Health, Education, and Welfare

U. S. DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE
March 1969

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Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Department of Health, Education, and Welfare

A GUIDE FOR STATE GOVERNMENT AGENCIES

This brochure is for use by State government agencies and implements Bureau of the Budget Circular A–87 which provides principles and standards for determining costs applicable to grants and contracts with State government agencies.

U.S. Department of Health, Education, and Welfare
Robert H. Finch, Secretary

James F. Kelly, Assistant Secretary, Comptroller

Nathaniel H. Karol, Director, Division of Grants Administration Policy

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

OFFICE OF THE SECRETARY

Gentlemen:

In January 1968, we distributed copies of a brochure entitled "A Guide for State and Local Government Agencies—Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education, and Welfare."

At the time that this brochure was distributed we were cooperating closely with the Bureau of the Budget in developing a broader set of principles for determining the costs of *all* grants and contracts with States and local governments. These principles have since been developed and incorporated in Budget Bureau Circular A–87, a copy of which has been made a part of this brochure. The new principles conform substantially to those incorporated in our earlier brochure except that they apply not only to research but to all other work.

Circular A–87 provides that the principles which it contains will be applied by Federal agencies at the earliest practicable date but not later than January 1, 1969, with respect to State governments and January 1, 1970, with respect to local governments. The January 1, 1969, date has been extended by the Budget Bureau to July 1, 1969. Accordingly, this brochure pertains only to State governments. A companion brochure will be subsequently developed for local governments.

This brochure provides guidance on the procedures to be followed by State governments in seeking to recover the costs of services provided by central service type activities to grantee State departments and the indirect costs of grantee State departments. It is important to note that as a prerequisite to such recovery, States must develop and submit to the Department a formal State-wide cost allocation plan for central support services. A formal plan for allocating indirect costs of each grantee department must also be submitted to that Federal agency which has the predominant dollar involvement in the department. The Department of Health, Education, and Welfare will approve indirect cost proposals for State departments of health, education, and public assistance. Sample proposal formats are also included in the brochure.

In order to carry out the provisions of Circular A–87, an interagency committee has been established with representation from all of the major Federal agencies that make grant or contract awards to the States. A counterpart committee has also been appointed by the National Association of State Budget Officers to work with us. The cooperation and support of both of these committees has contributed materially to the development of this brochure. These committees will continue to function in order to ensure effective coordination among the involved Federal agencies and the States in handling this indirect cost activity. I am confident that this constructive working relationship will make it possible to fully realize the objectives of Circular A–87.

Sincerely yours,

James F. Kelly

James F. Kelly
Assistant Secretary, Comptroller

Department of Health, Education, and Welfare

A GUIDE FOR ESTABLISHING COST ALLOCATION PLANS AND INDIRECT COST RATES FOR HEALTH, EDUCATION AND WELFARE GRANTS AND CONTRACTS

PREFACE

Budget Bureau Circular A–87 establishes uniform principles for determining the costs of grants and contracts to States and localities. The Circular also provides that Federally assisted programs shall bear, in addition to direct costs, their fair share of indirect costs except where restricted or prohibited by law. Federal agencies were directed to implement the principles with respect to States by January 1, 1969 (this was subsequently extended to July 1, 1969), and with respect to localities by January 1, 1970. The Department of Health, Education, and Welfare has been designated as the representative Federal agency for auditing and negotiating central State allocation plans for the cost of support or service type activities. Circular A–87 urges Federal agencies to cooperate in establishing similar lead agency arrangements for approving indirect costs of State departments that conduct Federally supported activities.

Two committees, a Federal interagency coordinating committee and a committee of the National Association of State Budget Officers have been established to pursue those actions necessary to ensure effective implementation of the provisions of Circular A–87 and to achieve the necessary degree of coordination among concerned Federal and State personnel.

Within the Department of Health, Education, and Welfare all functions related to the approval of cost allocation plans and the establishment of indirect cost rates for non-profit organizations are assigned to the Division of Grants Administration Policy of the Office of the Assistant Secretary, Comptroller.

The Division was given these responsibilities in August 1966, to simplify through centralization, the processes of rate review and negotiation and thus to serve more directly and efficiently organizations performing under grants or contracts with any of the Department's operating agencies.

The centralization of the processes of rate review and negotiation within the Department of Health, Education, and Welfare and the assignment of negotiating responsibilities by Budget Bureau Circular A–87 involve two procedures of immediate significance to States that wish to claim indirect costs against Federal grants and contracts.

1. States are expected to develop a cost allocation plan for distributing the costs of services provided to operating departments or agencies, such as the health department, by other organizations within the State, such as central audit or central motor pool. When the distribution of such costs to the various operating departments has been approved by the Department of Health, Education, and Welfare they will not be subject to question when indirect costs of the individual operating departments are reviewed by other Federal agencies.*

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*Circular A–87 provides that such cost will be accepted "... unless an agency determines that the approved plan would result in significant inequitable or improper charges to programs for which it is responsible."

2. Each State department or agency which receives Federal support in the form of grants or contracts, will be required to submit an indirect cost proposal for the distribution of administrative or general type costs to all of its activities. A single annual negotiation will be required to obtain approval of this proposal for application to all Federally sponsored activities. The Federal agency designated to act on behalf of the Federal Government in such negotiations will be that agency which provides the largest amount of Federal support to the State agency or department.

This brochure describes in general terms the processes of indirect cost rate determination and presents instructions for the submission of rate proposals by the States.

Section I contains general information on indirect cost rate determination and on the significance of Circular A–87.

Section II sets out guidelines for preparation of State-wide cost allocation plans and State department or agency indirect cost proposals.

Section III contains, in question and answer form, additional guidance on the questions most likely to arise in interpreting the cost principles contained in Section IV.

Section IV contains Bureau of the Budget Circular A–87 "Principles for Determining Costs Applicable to Grants and Contracts with State and Local Governments," sample cost allocation plan formats, sample negotiation agreements, suggested bases of distribution, sample certification forms as well as the criteria used to determine the assigned negotiation responsibilities of Federal agencies.

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SECTION I—GENERAL INFORMATION—THE SIGNIFICANCE OF CIRCULAR A–87

Federal agencies are for the first time governed by a uniform set of standards for reimbursing costs applicable to grants and contracts awarded to States. Budget Bureau Circular A–87 is the product of a study undertaken by the Budget Bureau, in cooperation with Federal agencies, as a result of concerns expressed by the States over the lack of uniformity among Federal agencies in allowing costs incurred under Federally supported programs, particularly costs of an indirect nature.

The Department of Health, Education, and Welfare recognizes the difficulties that can occur when an organization or agency receiving grant support from two or more sponsoring Federal agencies is confronted by differing cost reimbursement policies. Accordingly, the Department strongly endorses the establishment under Circular A–87 of uniform reimbursement standards and a mechanism for avoiding duplicate negotiations of indirect costs on the part of State agencies and departments with their several Federal sponsors. This result coincides with efforts undertaken within the Department over the past several years to regularize the cost reimbursement practices of its constituent agencies.

The Department recognizes too, that costs are both direct and indirect and that the determination of indirect costs is a matter of critical importance in the administration of Federal-State programs. For this reason it wishes to encourage the fullest understanding of statutory, procedural or other requirements in relation to costing, believing that such understanding will facilitate the administration of programs that are of great importance to the Department, to the States, and to the Nation.

Budget Bureau Circular A–87—What it Means

Budget Bureau Circular A–87 establishes uniform Government-wide guidelines for identifying costs under grants and contracts to States. The Circular is designed to provide that Federally assisted programs bear their fair share of costs *except where restricted or prohibited by law.* It removes several restrictions that had formerly been prevalent in the cost reimbursement policies of Federal sponsors, by providing that, except where otherwise restricted by the Circular:

(1) All indirect costs of the grantee State department are allowable providing they are necessary for the efficient conduct of the grant program.

(2) A necessary cost of a grant program is allowable regardless of where it is incurred within the State complex.

(3) The costs of services provided by central service type agencies to grantee State departments are allowable and need not be supported by a transfer of funds between the departments involved.

Circular A–87 seeks to create greater uniformity and to promote efficiency and better relationships among grantees and Federal agencies. However, it is important to note what the provisions of Circular A–87 *do not* do:

(1) They *do not* specify a particular form of organization, management technique, or method of accounting, as a condition of cost reimbursement under Federal grants or contracts; however, this is not to preclude bilateral agreements reached between State agencies and the Federal government on organizational arrangement or personnel placement;

(2) They *do not* identify the circumstances or dictate the extent of Federal and State participation in the financing of a particular grant. Matching requirements of the various Federal

programs are unaffected by Circular A–87 and where authorizing program legislation contains explicit restrictions on the reimbursement of particular costs, such restrictions are similarly unaffected;

(3) They *do not* allow the reimbursement of costs of general State government. Costs of general State government are not explicitly defined in the Circular but costs such as the salaries and expenses of the State legislature are listed as unallowable and considered to fall into this category.

Awarding Indirect Costs

An application for a project grant or contract, or in the case of a mandatory or formula grant, the submission of a State plan, usually involves a request by the prospective recipient for both direct and indirect costs.

The indirect costs of a program are those costs not readily identifiable with the program itself but nevertheless incurred by the State—as in the operation and maintenance of buildings or in the payment of utilities costs or administrative salaries—for the joint benefit of the program and of other activities carried on by the organization. Indirect costs include the costs incurred by both a State agency performing under a grant or contract and by a State agency providing central services.

In theory all such costs might be charged directly. Practical difficulties, however, preclude such an approach. Therefore, Circular A–87 provides for the reimbursement of these costs through the mechanism of an indirect cost rate. An indirect cost rate is simply a device for determining fairly and conveniently within the boundaries of sound administrative principle, what proportion of such general expenses each program should bear. It is the ratio between the total indirect expenses and some direct cost base, commonly either direct salaries and wages or total direct costs, exclusive of any extraordinary or distorting expenditures such as capital assets, major subcontracts, alterations and renovations, etc.

The indirect cost rate is the end product of a series of cost apportionments distributing costs which jointly benefit two or more State activities or programs, to those activities or programs in some reasonable relation to the benefits derived by them. Circular A–87 requires that the distributions, and the techniques used to make the distributions, be evidenced by the submission of a consolidated State-wide cost allocation plan for each State, and an indirect cost proposal for each State agency carrying on Federally sponsored activities.

In order to recover indirect costs, a consolidated State-wide cost allocation plan and an indirect cost proposal for each State agency carrying on Federally sponsored activities *must be submitted to the Federal Government annually.* These plans and proposals form the basis for agreements between the State and the Federal Government setting forth the indirect costs which may be charged to Federally supported programs. In turn, these agreements constitute authority to Federal agencies making awards to States to reimburse indirect costs under their programs (unless otherwise restricted by law). The absence of an agreement signifies that a claim for indirect cost has not been established by the State in accordance with Circular A–87 and will act to preclude the recognition of such costs as a charge to Federally supported programs.

The Cost Allocation Plans

Costs incurred by the State in connection with programs sponsored by the Federal Government are allowable whether incurred by the State agency which receives the Federal award or by another agency which provides supportive services to the recipient agency. Cost allocation plans are the means by which such costs can be identified in a logical and uniform manner for reimbursement under Federal grants and contracts.

There are two types of cost allocation plans. The first covers the distribution of the cost of support services provided to State grantee or contractor agencies by other State agencies and is referred to as the consolidated State-wide cost allocation plan. The second covers the distribution of the costs within an individual grantee or contractor agency, *including the costs of services allocated to it under the consolidated State-wide cost allocation plan,* to all work performed by that agency. This second type of cost allocation plan is commonly referred to as an indirect cost rate proposal.

These plans are explained further in Section II.

Federal Coordination for Rate Determination

Responsibility has been assigned to the Department of Health, Education, and Welfare, as the agency with the greatest interest in grants at the State level, for the approval and audit of consolidated State-wide cost allocation plans. This approval will authorize the inclusion of central service type support costs in the indirect cost proposals of individual State agencies that are the recipients of Federal awards. A single Federal agency is responsible for approval of the indirect cost proposal of each State agency. Responsibility lies with that Federal agency having the maximum dollar interest, (See Section IV, Appendix 6). State agencies should prepare their indirect cost proposals in accordance with the instructions of the responsible Federal agency. This *GUIDE* constitutes instructions for the use of those State agencies for which the Department of Health, Education, and Welfare is responsible.

A formal negotiation agreement will be executed by a representative of the State and a representative of the Department of Health, Education, and Welfare to signify the establishment of an approved consolidated State-wide cost allocation plan. This agreement will be distributed to other Federal agencies that sponsor programs carried on by the State and will permit them to accept the costs contained in the consolidated State-wide cost allocation plan which are distributed to the programs they sponsor.

Similarly, each State agency will execute a formal negotiation agreement, for the indirect costs incurred by that State agency, with the Federal agency that is responsible for approving its indirect cost proposal (see Section IV, Appendix 7.a. & 7.b.). The indirect cost negotiation agreement will also be distributed to all sponsoring Federal agencies and will be binding on them.

The Department of Health, Education, and Welfare and other responsible Federal agencies which negotiate on behalf of the Federal Government will coordinate their review and negotiation activities with the other Federal agencies as appropriate. When a formal negotiation is conducted (as contrasted with a negotiation by correspondence or telephone), representatives of the other Federal agencies may participate in the negotiation conference.

Statutory Limitations

Some Federal grants are subject to laws that limit the amount of indirect costs that may be allowed. When the amount allowable under a statutory limitation is less than the amount otherwise allocable as indirect costs, the amount not recoverable as indirect costs under a grant may not be shifted to another Federal grant or contract.

SECTION II—GUIDELINES FOR PREPARING A CONSOLIDATED STATE-WIDE COST ALLOCATION PLAN AND INDIRECT COST RATE PROPOSALS

CONSOLIDATED STATE-WIDE COST ALLOCATION PLAN

Plan Requirements

State agencies commonly render various supportive services to each other, i.e. facilities, motor pool, legal counsel, procurement, personnel administration, data processing, etc. In some instances these services are provided without charge to the recipient agency; in other instances an inter-agency charge is made. The Department of Health, Education, and Welfare will recognize such costs whether or not a charge to the recipient agency is actually made, provided that:

a. the services provided and their related costs are documented and can be supported, and

b. the services provided are necessary to the efficient conduct of Federal grants and contracts, and

c. the provider and recipient agencies are not separate legal entities (i.e., a State agency and a non-State agency), and

d. the costs are permitted under Bureau of the Budget Circular A–87, and

e. Charges to the Federal grants and contracts are made in conformance with a consolidated State-wide cost allocation plan approved by the Department of Health, Education, and Welfare.

The costs of supporting agency services are generally treated as indirect costs and added to the indirect costs generated at each State department or agency. However, if special services are provided to specific programs by supporting agencies, rather than general services, then the special services may be treated as direct program costs. See Section IV, Appendix 2, Exhibit D, for an illustration. To support claims for support agency services by each State Department or agency, the State Budget Officer or other authorized State official must submit for approval a consolidated State-wide cost allocation plan prepared in accordance with Bureau of the Budget Circular A–87, "Principles for Determining Costs Applicable to Grants and Contracts with State and Local Governments" (see Section IV, Appendix 1). A sample consolidated State-wide cost allocation plan is presented in Section IV, Appendix 2.

The plan must contain (but need not be limited to): the nature and amount of the services provided and their relevance to Government projects, the items of expense included in the cost, the methods used to distribute cost, the identification of the State agency rendering the services, and the identification of the State agency(s) receiving the services. It must also contain a State organizational chart that shows *both* the State-wide organizations rendering service and *all* non-central State departments, *whether or not they are reflected as benefiting from central services in the State-wide cost allocation plan.* A State organizational chart must accompany the first consolidated State-wide cost allocation plan submitted. Subsequent year plans need only show changes to the organizational chart initially submitted. The consolidated plan must also be certified by the State Budget Officer or other authorized State official (see Section IV, Appendix 3).

There are four basic steps in the preparation of a plan:

(1) Identification of the costs of each type of service to be claimed, as defined in Attachment A, Section G.1. of the cost principles.

(2) Determination of the method for allocating each type of service to users.

(3) Mathematical allocation of these costs to the user agencies.

(4) Summarization of the amounts allocated into a single, formal, comprehensive State-wide plan.

The completed plan should be submitted to the Department of Health, Education, and Welfare for approval. The Department will analyze the plan to determine that (a) the cost of central State services have been distributed to all benefiting State activities, (b) the distribution is based on a method(s) which is reasonably indicative of the amount of services provided, (c) the services provided are necessary to the successful conduct of Federal programs, (d) the level of costs incurred are reasonable, and (e) the costs claimed are otherwise allowable in accordance with Circular A–87.

On the basis of this review the Department will take one of the following actions:

(1) It will find the plan acceptable as a basis for provisionally funding Federal programs, but will require the submission of additional data or require an audit prior to reaching a final agreement with the State on the actual amount of costs which may be charged to Federal programs.

(2) It will find the plan fully acceptable and will enter into an agreement with the State on the amount of costs which may be charged to Federal programs. Such an agreement is not subject to revision at a later date unless it is found to result in a major inequity to the State or the Federal Government, and both parties are willing to reopen the negotiation.

A plan may be found to be fully acceptable either before or after the completion of the State fiscal year to which it applies. In the former instance, the costs are considered to be predetermined, and a predetermined negotiation agreement is formalized. In the latter instance, the costs are considered to be finalized, and a final negotiation agreement is formalized. In both instances the amounts agreed to are fixed.

(3) It will determine that the plan is incomplete or otherwise unacceptable. In such instances, the State organization which submitted the plan will be advised by telephone or in writing of the reasons why the plan is unacceptable. The Department will cooperate fully to assist the State in developing an acceptable plan.

Provisional and Final Agreements

Since full year costs do not become known until the end of a State fiscal year, the Department of Health, Education, and Welfare may approve State-wide costs on a provisional basis using either: (1) a prior year's actual costs, (2) projected costs for the fiscal year under consideration, or (3) a combination of historical costs and projected costs. The tabuluation below illustrates the procedure to be followed by the State for the first year under Circular A–87 assuming the State prepares its proposal sometime during the period from January 1, 1969 to June 30, 1969.

PROVISIONAL STATE-WIDE COSTS
FOR THE STATE FISCAL YEAR
July 1, 1969—June 30, 1970

may be based on one of
the following methods:

(1) USE A PRIOR YEAR'S ACTUAL COSTS—IN THIS CASE USE—*July 1, 1967—June 30, 1968* COSTS

or

(2) USE PROJECTED COSTS FOR THE FISCAL YEAR UNDER CONSIDERATION —*July 1, 1969—June 30, 1970*

or

(3) USE A COMBINATION OF HISTORICAL COSTS AND PROJECTED COSTS—

USE MOST RECENT ACTUAL COSTS *July 1, 1968—January 31, 1969,*

PLUS PROJECTED COSTS *February 1, 1969—June 30, 1969.*

Projected costs must be adequately supported. Within six months after the end of the State's fiscal year a revised State-wide plan must be submitted using actual costs.

REFERRING TO THE TABULATION ABOVE, THE STATE MUST SUBMIT BEFORE December 31, 1970, A STATE-WIDE PLAN OF *ACTUAL COSTS* INCURRED FOR THE FISCAL YEAR July 1, 1969—June 30, 1970.

The plan containing the *actual costs* for the period July 1, 1969—June 30, 1970 will be used by the Department of Health, Education and Welfare as a basis for negotiating FINAL costs for this period. These final costs may also be used as provisional costs for the next period, from July 1, 1970 to June 30, 1971.

AT THIS POINT, THE PROCEDURE REPEATS. WITHIN SIX (6) MONTHS AFTER June 30, 1971, THE GRANTEE MUST SUBMIT A STATE-WIDE PLAN OF ACTUAL COSTS FOR THE FISCAL YEAR July 1, 1970—June 30, 1971.

Since the use of provisional costs which are subsequently adjusted to actual costs entails additional administrative effort for both the States and the Federal Government, the use of predetermined agreements are encouraged where the circumstances warrant their use.

Predetermined Agreements

A predetermined agreement is used to formalize an advance understanding between the State and the Department of Health, Education, and Welfare on the final amounts that will be apportioned during a future period. It is not generally subject to subsequent adjustment. It represents amounts that are negotiated prior to the period when the actual costs are known. A predetermined agreement may be subject to revision, however, if changes are made in the methods of accounting that were used as a basis for predetermination. Predetermined agreements are used where the cost experience and other pertinent facts available are deemed sufficient to enable the Federal Government and the State to reach an informed judgment as to the probable level of costs to be incurred so that the amount allowed is not likely to exceed the actual cost.

In the tabulation shown in the preceding sub-section on Provisional and Final Agreements, the State-wide cost allocation plan submitted during the period from January 1, 1969 to June 30, 1969, to be used for the fiscal year July 1, 1969—June 30, 1970, might serve as a basis for predetermining final amounts for that fiscal year. However, since predetermination relies extensively on historical data, it may not be feasible to utilize this technique until sufficient historical experience has been developed. Where it can be used however, predetermination avoids the administrative difficulties and uncertainties of fund availability inherent in the process of establishing provisional or funding rates, and subsequently adjusting those amounts based on actual cost experience.

In addition, the Department encourages the use of predetermined amounts with provisions for "carrying" or "rolling" forward into a subsequent fiscal year, the difference between the predetermined amounts and the subsequently determined actual amounts of the period that was predetermined. This procedure will not be applicable to those States whose budget appropriation process precludes this approach.

Submission of Plan

All State-wide cost allocation plans will be negotiated by the Department of Health, Education, and Welfare and will be binding on other Federal agencies. Plans should be submitted to:

Division of Grants Administration
Policy
Office of the Assistant Secretary,
Comptroller
Department of Health, Education, and
Welfare
330 Independence Avenue, S.W.
Washington, D.C. 20201

A State-wide cost allocation plan must be submitted annually, within six months after the last day of the State's fiscal year. It is essential that plans be submitted in a timely fashion. Awards made after a State-wide plan becomes due will not provide for the recovery of State-wide indirect costs. Any State-wide indirect costs claimed against awards already made will be subject to disallowance.

INDIRECT COST RATE PROPOSALS

Basic Process

The total operating costs of State departments performing Federally supported programs consist of two basic categories of cost—direct and indirect. Direct costs are those which can be identified with a single program or activity and are specifically reimbursed as such. Indirect costs (or overhead) are those costs of a State department which jointly benefit two or more programs or activities. Indirect costs also include that proportionate share of the cost of central State services distributed to a State department via the State-wide cost allocation plan. Indirect costs are reimbursed by the mechanism of an indirect cost rate, that is, they are expressed as a percentage of some direct cost base and applied to each program or project award by multiplying the rate by the base costs charged to the award.

The indirect cost rate is developed annually by the State and submitted to the Department of Health, Education and Welfare in the form of an indirect cost rate proposal. As with the State-wide cost allocation plan, the Department will analyze the proposal to determine that (a) all activities of the State department have been considered, (b) the distribution of indirect costs is based on a method(s) which is reasonably indicative of the amount of services provided, (c) the services provided are necessary to the successful conduct of the Federal programs, (d) the level of costs incurred are reasonable, (e) costs for central State services are charged in conformance with the State-wide cost allocation plan as approved by the Department of Health, Education and Welfare, and (f) the costs claimed are otherwise allowable in accordance with Circular A–87.

On the basis of this review the Department will take one of the following actions:

(1) It will find the proposal acceptable as a basis for provisionally funding Federal programs, but will require the submission of additional data or require an audit prior to reaching a final agreement with the State on the actual rate at which indirect costs may be charged to Federal programs.

(2) It will find the proposal fully acceptable and will enter into an agreement with the State on the rate at which indirect costs may be charged to Federal programs. Such an agreement is not subject to revision at a later date unless it is found to result in a major inequity to the State or the Federal Government, and both parties are willing to reopen the negotiation.

A proposal may be found to be fully acceptable either before or after the completion of the State fiscal year to which it applies. In the former instance, the rate is considered to be predetermined, and a predetermined negotiation agreement is formalized. In the latter instance, the rate is considered to be finalized and a final negotiation agreement is formalized. In both instances the rate agreed to is fixed.

(3) It will determine that the proposal is incomplete or otherwise unacceptable. In such instances, the State organization which submitted the proposal will be advised by telephone or in writing of the reasons why the proposal is unacceptable. The Department will cooperate fully to assist the State in developing an acceptable proposal.

Provisional and Final Rates

Since full year costs do not become known until the end of a State department's fiscal year, the Department of Health, Education, and Welfare may approve a State department's costs on a provisional basis using either: (1) a prior year's actual costs, (2) projected costs for the fiscal year under consideration, or (3) a combination of historical costs and projected costs. The tabulation below illustrates the procedure to be followed by a State department for the first year under Circular A-87 assuming the State department prepares its proposal sometime during the period from January 1, 1969 to June 30, 1969.

PROVISIONAL INDIRECT COST RATE(S) FOR A STATE DEPARTMENT'S FISCAL YEAR

July 1, 1969—June 30, 1970

may be based on one of the following methods:

(1) USE A PRIOR YEAR'S ACTUAL COSTS—IN THIS CASE, USE *July 1, 1967—June 30, 1968* COSTS

or

(2) USE PROJECTED COSTS FOR THE FISCAL YEAR UNDER CONSIDERATION— *July 1, 1969—June 30, 1970*

or

(3) USE A COMBINATION OF HISTORICAL COSTS AND PROJECTED COSTS—

USE MOST RECENT ACTUAL COSTS *July 1, 1968—January 31, 1969,*

PLUS PROJECTED COSTS *February 1, 1969—June 30, 1969*

Projected costs must be adequately supported. Within four months after the Statewide cost allocation plan has been approved by the Department of Health, Education and Welfare, a revised indirect cost rate proposal must be submitted using actual costs.

REFERRING TO THE TABULATION ABOVE, A STATE DEPARTMENT MUST SUBMIT BEFORE April 30, 1971, AN INDIRECT COST RATE PROPOSAL OF *ACTUAL COSTS* INCURRED FOR THE FISCAL YEAR July 1, 1969—June 30, 1970

The proposal containing the *actual costs* for the period July 1, 1969—June 30, 1970, will be used by the Department of Health, Education, and Welfare as a basis for negotiating a FINAL rate for this period. The final rate may also be used as a provisional rate for the next period, from July 1, 1970 to June 30, 1971.

AT THIS POINT, THE PROCEDURE REPEATS. WITHIN FOUR MONTHS AFTER THE DEPARTMENT OF HEALTH, EDUCATION AND WELFARE APPROVES THE STATE-WIDE COST ALLOCATION PLAN FOR THE FISCAL YEAR July 1, 1970 —June 30, 1971, A STATE DE-

PARTMENT MUST SUBMIT AN INDIRECT COST RATE PROPOSAL FOR THE FISCAL YEAR
July 1, 1970—June 30, 1971

Since the use of a provisional rate which is subsequently adjusted to an actual rate entails additional administrative effort for both the States and the Federal Government, the use of predetermined agreements are encouraged where the circumstances warrant their use.

Predetermined Rates

A predetermined rate is one which is agreed to in advance by a State department and the Department of Health, Education and Welfare, as representing the final rate that will be effective during a future period. It is not generally subject to subsequent adjustment. It is a rate which is negotiated prior to the period when the actual costs are known. A predetermined rate may be subject to revision, however, if changes are made in the methods of accounting that were used as a basis for predetermination. Predetermined rates are used where the cost experience and other pertinent facts available are deemed sufficient to enable the Federal Government and the State to reach an informed judgment as to the probable level of costs to be incurred so that the rate allowed is not likely to exceed the actual rate.

In the tabulation shown in the preceding sub-section on Provisional and Final Rates, the indirect cost rate proposal submitted during the period from January 1, 1969 to June 30, 1969, to be used for the fiscal year July 1, 1969—June 30, 1970, might serve as a basis for predetermining final rates for that fiscal year. However, since predetermination relies extensively on historical data, it may not be feasible to utilize this technique until sufficient historical experience has been developed. Where it can be used however, predetermination avoids the administrative difficulties and uncertainties of fund availability inherent in the process of establishing provisional or funding rates, and subsequently adjusting those rates based on actual cost experience.

In addition, the Department encourages the use of predetermined rates with provisions for "carrying" or "rolling" forward into a subsequent fiscal year, the difference between the amounts reimbursed using the predetermined rate and the amounts which would have been reimbursed had the actual rate been known for the period that was predetermined. This procedure of making prior year adjustments in future years will not be applicable to those States whose budget appropriation process precludes this approach.

Methods of Calculation

Because of the wide variety of situations to which they apply, the cost principles in Section IV, Appendix 1, describe the methods of developing indirect cost rates in somewhat general terms. It is possible, however, to group these methods into two broad categories, depending on whether a single base or more than one base is used to distribute the various elements of indirect costs. In all cases, costs of services provided by other agencies without charge to the grantee department may be allocated to Federally sponsored projects and programs to the extent that they are supported by an approved consolidated State-wide cost allocation plan. The State agency shall prepare and submit an indirect cost proposal in accordance with the instructions of the Federal agency having the maximum dollar interest. The instructions in this *Guide* must be used by State agencies where the Department of Health, Education, and Welfare has the maximum dollar interest.

Use of multiple rate method

Under this method, indirect costs are initially grouped into various functional categories or pools, such as General Administration, Divisional Administration, Building Occupancy Costs, etc. Each pool of costs is then distributed to, or divided among, the benefiting Divisions and Bureaus of a State department or agency by means of a base which best measures the relative degree of benefit which these activities derive from that pool. Careful judgment is required to establish the appropriate number of pools, giving consideration to the materiality of the amounts involved.

This method involves four basic steps:

1. Establishment of functional cost groupings (pools) to separate broad categories of indirect costs which benefit the divisions and bureaus of a State department or agency, in significantly different proportions.
2. Selection of an appropriate distribution base for each pool of indirect costs. See Section IV, Appendix 5 for examples of distribution bases.
3. Distribution of each indirect cost pool to the activities in its base.
4. Calculation of an indirect cost rate for each division and bureau of a State department or agency by relating the indirect costs allocated to each division or bureau by that division's or bureau's base. Rate bases in common use include but are not limited to:
   a. total direct salaries and wages;
   b. total direct salaries and wages plus applicable fringe benefits;
   c. total direct costs, less capital expenditures.

Use of short or simplified methods

In many instances, Federal and State activities conducted by State agencies benefit to relatively the same degree from the functions which generate indirect costs. This is particularly true when the Federal activity is not substantial in amount. Under these circumstances it is not necessary to make a series of indirect cost distributions. Instead indirect costs may be defined to include only those services which benefit Federal activities exclusively or jointly with other activities and a single rate may be developed.

These methods involve three basic steps:

1. Adjusting the total costs, including those charged to a Federally sponsored activity, by eliminating costs defined in the principles as either unallowable or as capital expenditures.
2. Classifying the remaining costs as either direct or indirect.
3. Computing the rate by dividing total indirect costs by total direct costs, or elements thereof.

Sample Proposals and the Cost Principles

Three sample formats of indirect cost proposals are presented in Section IV, Appendix 2. The three indirect cost proposal formats are identified as: (a) the short method, (b) the similified method, and (c) the multiple rate method. These samples are intended merely to illustrate the mechanics of proposal preparation in some of the most commonly encountered situations, and they normally will require adaptation to actual circumstances of individual agencies. Only one indirect cost proposal is required for each State agency which is a recipient of Federal awards.

Use of Special Rates

The Department of Health, Education and Welfare prefers the use of a single, composite rate applicable to all Federal grants and contracts awarded to a particular agency. When, however, the use of such a rate is demonstrably inequitable or may result in a significantly inappropriate distribution of indirect costs to certain organizational units or activities of the agency, and subsequently to Federal programs, multiple rates should be developed.

The appropriateness of multiple rates for certain organizations depends on whether the unit—such as the separate laboratory or off-site activity—uses, as fully as do other units, the services comprising the organization's indirect cost pool.

The use of multiple rates may be indicated, for example, if an activity is so situated—either geographically or organizationally—that services normally included in the organization's *indirect* cost pool are charged to the activity as *direct* costs. The intent in this case is to avoid the distortion that would result if services to the activity, charged directly to its projects, also were charged through the indirect cost rate.

Supporting Documentation

The submission of each indirect cost rate proposal must be accompanied by the following supporting documentation:

(1) A certification by a responsible State department or State agency official that the proposal has been prepared in accordance with applicable regulations. The sample format in Section IV, Appendix 4, should be used for this purpose.

(2) A copy of financial statements prepared by either certified public accountants or State auditors. If these are not available, proposals should be accompanied by any financial documents generated either by the State agency or higher tier State agency which can be used to substantiate the authenticity of the amounts proposed.

(3) A listing of all Federal grants and contracts awarded to the State agency, the amount of Federal and non-Federal funds involved under each award, and an identification of the Federal agencies.

Rate Alternatives for Grants

In the case of grants, the Department of Health, Education, and Welfare permits certain alternatives in the selection of the method by which final rates are to be applied in computing the amount of indirect costs to be reimbursed under each grant, specifying only that the rate or rates be applied consistently to all grants during the stated periods. These alternatives are only applicable to grants; they are not applicable to contracts. Thus the grantee may choose one of the following methods:

1. The rate established for the fiscal year in which the grant budget year begins is applied to the entire grant budget year. (For example, a final rate of 14% has been established for the period July 1, 1969 to June 30, 1970. A grant began on January 1, 1970. The 14% rate is applied despite the fact that six months of the grant budget year fall in a period for which a different rate may be applicable.) This method is the simplest to apply and is preferred by the Department.
2. The rate established for the fiscal period in which the preponderance (in time) of the grant budget year occurs is applied to the entire grant budget year. (For example, a final rate of 14% has been established for the period of July 1, 1969 to June 30, 1970. A rate of 12% has been established for the period July 1, 1970 to June 30, 1971. A grant which had an effective date of March 1, 1970 would use the 12% rate because eight months of the grant budget year fell in the period during which the 12% rate applied.)
3. The rates established for the periods in which direct expenditures are actually made is applied to those expenditures. (For example, a final rate of 14% has been established for the period July 1, 1969 to June 30, 1970. A rate of 12% has been established for the period July 1, 1970 to June 30, 1971. A grant for $50,000 and associated indirect costs was awarded effective March 1, 1970 and $30,000 of direct costs were expended by June 30, 1970. The rate of 14% would be applied to the $30,000 and the 12% rate would apply to the $20,000 spent during the last nine months of the grant year.) This method produces the most accurate results but involves the greatest amount of administrative effort.

These alternatives offer maximum flexibility in the application of rates. *Whatever the method selected, however, its consistent application to all project grants is expected.* Grantees are requested to indicate the method selected when submitting their indirect cost proposals. Any subsequent change of methods will require prior approval of the Division of Grants Administration Policy.

Cost reimbursement type contracts will continue to use the rates established for the periods in which the direct contract expenditures are made, as in the third alternative above.

Submission of Plans

All State department indirect cost proposals for which the Department of Health, Education, and Welfare is responsible should be submitted to:

Division of Grants Administration Policy
Office of the Assistant Secretary, Comptroller
Department of Health, Education, and Welfare
330 Independence Avenue, S.W.
Washington, D.C. 20201

An annual indirect cost proposal must be submitted by each State Department that claims indirect costs on Federally supported programs. The proposal must be submitted within four months after the State-wide cost allocation plan has been approved by the Department of Health, Education and Welfare. It is essential that proposals be submitted in a timely fashion. Awards made after a proposal becomes due will not provide for the recovery of indirect costs for the period of delinquency and indirect costs claimed against awards already made will be subject to disallowance.

SECTION III—QUESTIONS AND ANSWERS

Q. IS THE PUBLICATION OASC-4 "A GUIDE FOR STATE AND LOCAL AGENCIES" PREVIOUSLY ISSUED BY THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE STILL APPLICABLE?

A. No, effective July 1, 1969, publication OASC-4 is superseded by this brochure.

Q. ON JANUARY 1, 1969, WILL CIRCULAR A-87 BE MANDATORY FOR USE BY BOTH STATES AND BY LOCAL GOVERNMENTS?

A. No. Bureau of the Budget Circular A-87 states that it will be effective beginning January 1, 1969 for States and January 1, 1970 for localities. However, the Bureau of the Budget has deferred the effective date for States until July 1, 1969. The prescribed effective date for localities remains January 1, 1970.

Q. IF CIRCULAR A-87 DOES NOT BECOME MANDATORY FOR USE BY LOCAL GOVERNMENTS UNTIL JANUARY 1, 1970 AND PUBLICATION OASC-4 IS NO LONGER APPLICABLE TO STATES, WHAT COST PRINCIPLES MAY BE USED BY LOCAL GOVERNMENTS PRIOR TO JANUARY 1, 1970?

A. Local governments should continue to use those Federal agency regulations that were in effect prior to Circular A-87, for determining costs applicable to grants and contracts other than research grants and contracts. Circular A-87 should be used by local governments on research agreements beginning July 1, 1969.

Q. THE PRINCIPLES STATE THAT THEY WILL BE APPLIED TO STATES AT THE EARLIEST PRACTICABLE DATE BUT NOT LATER THAN THE EFFECTIVE DATE OF JANUARY 1, 1969. HOW WILL THE EFFECTIVE DATE BE INTERPRETED?

A. States may submit to the Federal government beginning on January 1, 1969, their State-wide cost allocation plans and indirect cost proposals. The indirect costs approved pursuant to these plans may be applied beginning July 1, 1969 to Federal programs.

Q. TO WHAT DOES THE EXPRESSION "COST ALLOCATION PLAN" REFER?

A. A cost allocation plan refers to a document that identifies, accumulates, and distributes allowable costs under grants and contracts and identifies the allocation methods used for such distribution. It refers to both the State-wide cost allocation plan which is used to allocate the costs of central State services to benefiting State departments, as well as the individual cost allocation plans submitted by each of the State departments performing under grants and contracts, which allocate the costs of services incurred within the department. These latter plans, submitted by individual State departments are more commonly referred to as "indirect cost proposals." They include both the State department's own indirect costs as well as the allocated costs of central State services.

Q. WHO IS RESPONSIBLE FOR THE SUBMISSION OF STATE-WIDE COST ALLOCATION PLANS AND INDIRECT COST PROPOSALS?

A. It is the responsibility of each State to prepare and submit a timely State-wide cost allocation plan and indirect cost proposals. States should coordinate the submission of their plans through the individual who has been designated by the State Budget Officer as liaison with the Department of Health, Education, and Welfare.

Q. IS A STATE-WIDE COST ALLOCATION PLAN TO BE SUBMITTED WITH A PROJECT APPLICATION?

A. No, Circular A–87 has designated the Department of Health, Education, and Welfare as the responsible Federal agency for the negotiation and approval of a State-wide cost allocation plan. Within the Department, this function has been assigned to the Division of Grants Administration Policy. State wide cost allocation plans should be directed to this Division by the States no later than six (6) months after the end of a State's fiscal year.

Q. HOW WILL A NEGOTIATED AND APPROVED STATE-WIDE PLAN BE USED?

A. Once a plan is approved by the Department of Health, Education, and Welfare, States will be permitted to include these approved costs as part of and in addition to, the indirect costs that have been incurred by each of the individual State departments benefited. Similarly, approved individual State departments' indirect cost proposals will be used as a basis for reimbursing those State departments for those indirect costs incurred for the benefit of grants and contracts performed in those departments, to the extent that appropriated funds are available.

Q. MUST A STATE SUBMIT A STATE-WIDE COST ALLOCATION PLAN?

A. The submission of a State-wide cost allocation plan is only required where a State wishes to recover the costs of central services that benefit Federal programs conducted in or by State departments. A State-wide cost allocation plan is not required if a State elects not to make a claim for recovery of central service type costs against Federal awards.

Q. HOW WILL THE STATE AND OTHER FEDERAL AGENCIES BE NOTIFIED OF AN APPROVED STATE-WIDE COST ALLOCATION PLAN?

A. The Department of Health, Education, and Welfare will reduce to writing, in the form of a negotiation agreement, the results of the negotiation it has concluded with State authorities. The agreement will be signed by both the Department and the State and will be distributed to other Federal agencies. A negotiation agreement will be issued for each fiscal year and will include amounts or percentages that have been agreed to as allowable to benefiting State departments and includable in the various State departments' indirect cost proposals.

Q. MAY ANOTHER FEDERAL AGENCY QUESTION THE COSTS INCLUDED IN THE STATE-WIDE COST ALLOCATION PLAN APPROVED BY THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE?

A. The Department of Health, Education and Welfare will coordinate the approval of State-wide plans with the other Federal agencies affected. Accordingly, Federal agencies will accept as part of the costs of a particular State agency, those costs represented as State-wide costs provided they are in accord with the amounts set out in the negotiation agreement signed by the State and the Department of Health, Education and Welfare.

Q. THE SAMPLE FORMATS ILLUSTRATE ONE (1) METHOD OF COMPUTING A STATE-WIDE COST ALLOCATION PLAN AND THREE (3) METHODS FOR COMPUTING AN INDIRECT COST RATE FOR STATE DEPARTMENTS. IS THE STATE RESTRICTED TO THESE BASIC METHODS?

A. The State should use the State-wide cost allocation plan in the sample format. A format materially different than provided in the sample may be used only if prior approval is obtained from the Department of Health, Education, and Welfare. Less detail than that shown in the sample format will not be acceptable. The Department of Health, Education, and Welfare will recognize any of the three indirect cost proposal formats indicated as being applicable to a particular State department as long as the method selected gives effect to statutory requirements of the various Federal programs performed in that department. A State need not use the same format for all State departments and may elect the format which in each case is most appropriate to the department.

Q. ARE THERE ANY CRITICAL AREAS THAT STATES SHOULD GIVE PARTICULAR EMPHASIS TO IN THE DEVELOPMENT OF A STATE-WIDE COST ALLOCATION PLAN AND IN THE PREPARATION OF INDIVIDUAL INDIRECT COST PROPOSALS?

A. Many Federal programs currently permit as direct program costs, costs which in the normal sense would be construed as indirect costs. States should develop their State-wide cost allocation plans and indirect cost proposals in a manner that gives proper accounting effect to the direct costing of indirect type costs on those Federal programs that permit this practice, so as to avoid duplication of charges through indirect cost allocations.

Q. HOW CAN A STATE DISTINGUISH BETWEEN A DIRECT PROGRAM COST AND AN INDIRECT PROGRAM COST?

A. There is no universal rule for classifying costs as direct or indirect. However, once a State makes an election and treats a given cost as direct or indirect it must apply that treatment consistently and may not change during the fiscal year. Generally speaking, a direct cost is one that is incurred specifically for one activity. Indirect costs are of a more general nature and are incurred for the benefit of several activities. Consequently, some allocation technique must be used to distribute these indirect costs to the several direct functions benefited.

Q. CIRCULAR A-87 STATES THAT DEPRECIATION OR USE ALLOWANCES ARE PERMITTED BASED ON ACQUISITION COST AND THAT ACQUISITION COST MAY BE BASED ON A REASONABLE ESTIMATE IF ACTUAL COST RECORDS HAVE NOT BEEN MAINTAINED. IN LIEU THEREOF, IS SOME OTHER METHOD ARRIVED AT VIA AN ESTIMATION PROCESS ACCEPTABLE FOR INCLUSION IN THE COST REIMBURSEMENT PLAN SUCH AS A LOCAL SQUARE FOOT CONSTRUCTION COST TIMES SQUARE FEET IN USE OR A RATIO OF DOLLAR VALUE OF EQUIPMENT REQUIRED PER EMPLOYEE?

A. No, methods other than those cited in the Circular will not be permitted for purposes of computing depreciation or use allowance.

Q. MUST THE INDIRECT COST PROPOSALS BE PREPARED CENTRALLY FOR EACH STATE DEPARTMENT PERFORMING UNDER FEDERAL GRANT PROGRAMS?

A. These is no requirement that indirect cost proposals be prepared by any particular State organization. Proposals may be prepared by each of the State departments performing under Federal grants or they may be prepared in a central State office. However, while the State-wide cost allocation plan need not be prepared centrally, it must be submitted as a single document.

Q. HOW WILL THE FEDERAL GOVERNMENT ASSURE ITSELF THAT BOTH THE STATE-WIDE COST ALLOCATION PLAN AND THE INDIRECT COST PROPOSALS HAVE BEEN PROPERLY PREPARED?

A. The Federal Government will review each State-wide cost allocation plan and indirect cost proposal submitted to assure itself that the plans and proposals have been prepared properly. State budget officers or other authorized State representatives will be required to certify to the correctness of the State-wide cost allocation plan. A responsible State department official will be required to certify to the correctness of each of the indirect cost proposals. In addition, State-wide cost allocation plans and indirect cost proposals will be subject to audit.

Q. HOW WILL THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE NOTIFY OTHER FEDERAL AGENCIES CONCERNED, OF THE INDIRECT COST RATE(S) IT HAS ESTABLISHED FOR ANY ONE STATE DEPARTMENT?

A. As with the State-wide cost allocation plan, the Department of Health, Education, and Welfare will issue a negotiation agreement setting forth the agreement reached with the State department concerned. Normally, the agreement will be expressed as a percentage of direct costs or some element thereof. Copies of the agreement will be furnished to the other Federal agencies affected.

Q. WILL AN INDIRECT COST RATE(S) ESTABLISHED FOR A STATE DEPARTMENT BY THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE BE ACCEPTED BY OTHER FEDERAL AGENCIES THAT HAVE ACTIVE PROGRAMS WITH THE SAME STATE DEPARTMENT?

A. Federal agencies have determined which Federal agency will have negotiation responsibility at a State department where more than one Federal agency has active programs. Generally, that Federal agency with the predominant interest in terms of program dollars will be the cognizant Federal agency. This means that the Department of Health, Education, and Welfare will determine indirect cost rates for all Federal programs at State departments where the Department has the predominant dollar interest. In making such determinations the Department will coordinate its activities with the other Federal agencies affected to the extent deemed necessary prior to reaching an agreement with the State department concerned.

Q. WHAT IS AN INDIRECT COST RATE?

A. The indirect cost rate is a means of expressing the ratio of costs that have been incurred and which benefit many activities (numerator) to the total costs, or some element(s) thereof, of the direct activities benefited (denominator). It is also commonly referred to as "overhead." Once determined, the rate is used to determine grantee indirect cost entitlement. The entitlement is accomplished by multiplying the indirect cost rate percentage by the direct costs of each program. The direct costs of each program against which the percentage is applied must be of the same type that were included in the denominator to arrive at the percentage.

Q. WHICH FEDERAL AGENCY WILL BE RESPONSIBLE FOR THE AUDIT OF COSTS OF PROGRAMS ADMINISTERED BY STATE GOVERNMENTS UNDER GRANTS FROM AND CONTRACTS WITH THE FEDERAL GOVERNMENT?

A. The Department of Health, Education, and Welfare will be responsible for the audit of costs resulting from a State-wide cost allocation plan, the results of which will be accepted by other Federal agencies. At the grantee department level, Federal agencies will work toward the objective (also expressed in Bureau of the Budget Circular A–73) of designating a single Federal agency, the one with predominant interest, which will have responsibility for audit of costs resulting from departmental indirect cost proposals.

Q. WILL THE INDIRECT COSTS ARRIVED AT BY THE APPLICATION OF THE INDIRECT COST RATE PERCENTAGE BE REIMBURSED TO STATES?

A. These indirect costs will be reimbursed to States to the extent that appropriated funds are available.

Q. ON WHAT FISCAL YEAR COSTS SHOULD THE STATE-WIDE COST ALLOCATION PLAN BE BASED?

A. The first State-wide cost allocation plan may be submitted after January 1, 1969. It will be applicable for the State's fiscal year which begins in 1969; in most cases this will be July 1, 1969. Since the actual costs that will be incurred for the fiscal year beginning July 1, 1969, will not become known until June 30, 1970 at the earliest, the State-wide cost allocation plan submitted after January 1, 1969 will have to be based on costs other than those that will actually be incurred from July 1, 1969 to June 30, 1970. Normally, costs approved for use during any period of time that do not represent actual costs incurred within that time period are: (1) approved on a provisional basis, that is, they represent costs approved on a temporary basis until actually incurred costs become known or, (2) they are predetermined, that is, they become final rates for the period July 1, 1969—June 30, 1970 prior to the inception of that period. Differences in amounts allocable to Federal grants and grants resulting from the use of predetermined rates and subsequently determined actual rates may be "rolled" forward into a subsequent fiscal period. Consequently, for the first State-wide cost allocation plan submitted after January 1, 1969, for use during the period from July 1, 1969 to June 30, 1970, a State will be submitting costs on a provisional basis or on a predetermined basis with a "roll-forward" provision. The costs used to project may be either (1) the actual costs incurred for the most recently completed fiscal year, which in the example above, would be the fiscal year ended June 30, 1968, or (2) actual costs incurred for the period from July 1, 1968 to December 31, 1968 plus projected costs for the period January 1, 1969 to June 30, 1969, or (3) projected costs for the period July 1, 1969 to June 30, 1970. A State-wide cost allocation plan must be submitted once every year if a State wishes to recover the costs of central services that benefit Federal programs.

Q. CIRCULAR A–87 STATES THAT IT DOES NOT APPLY TO GRANTS AND CONTRACTS WITH (A) PUBLICLY FINANCED EDUCATIONAL INSTITUTIONS SUBJECT TO BUREAU OF THE BUDGET CIRCULAR NO. A–21, AND (B) PUBLICLY OWNED HOSPITALS AND OTHER PROVIDERS OF MEDICAL CARE SUBJECT TO REQUIREMENTS PROMULGATED BY THE SPONSORING FEDERAL AGENCIES. WHAT IS THE INTENT OF THIS STATEMENT AND HOW DOES IT AFFECT THE REIMBURSEMENT OF COSTS?

A. Costs applicable to grants and contracts with publicly financed educational institutions are governed by Bureau of the Budget Circular No. A–21. That Circular does not specifically comment on costs that benefit a publicly financed educational institution but which have been incurred elsewhere within a State complex. These type costs can be recognized within the basic considerations of allowable and allocable costs set out in Circular A–21. Consequently, the State-wide cost allocation plan should include distributions of allocable costs to State educational institutions. These costs, once approved by the Department of Health, Education, and Welfare, may be added to other educational indirect costs and allocated to Federal grants and contracts utilizing the cost principles of Circular A–21. The application of indirect costs to some grants and contracts may, however, be subject to statutory and administrative restrictions. The same conditions apply to both State organizations administering medical care programs and State organizations providing medical care under Federal programs. While these programs may be governed by other cost requirements promulgated by the sponsoring Federal agencies, there should be added to those costs an allocable share of State-wide costs determined to be acceptable by the Department of Health, Education, and Welfare in accordance with Circular A–87.

Q. WHAT SUPPORTING DOCUMENTATION SHOULD BE SUBMITTED WITH THE STATE-WIDE COST ALLOCATION PLAN?

A. State-wide cost allocation plans must be supported by a State organizational chart that shows both the State-wide organizations rendering service and all State Departments receiving service. Only changes to organizational structure need be submitted in subsequent years. In addition, the plan must be certified by the State Budget Officer or other authorized State Official. The plan itself should, as a minimum, contain (1) the nature of the services provided and their relevance to Government projects, (2) the items of expense to be included in the cost, (3) the methods to be used in distributing cost, and (4) identification of both the State agencies rendering the service and receiving the service.

Q. WHAT SUPPORTING DOCUMENTATION SHOULD BE SUBMITTED WITH AN INDIRECT COST PROPOSAL?

A. Each proposal should be accompanied by (1) a certification by a State department official, (2) a copy of financial statements or documents which can be used to substantiate the authenticity of the amounts proposed, and (3) a listing of other Federal agencies affected by an indirect cost rate determination for the State agency and the amount of program funds involved for these other Federal agencies.

Q. ATTACHMENT B, SECTION C OF THE CIRCULAR IDENTIFIES COSTS THAT ARE ALLOWABLE WITH APPROVAL OF THE GRANTOR AGENCY. IS APPROVAL NECESSARY WHEN THE STATE TREATS THESE COSTS AS INDIRECT COSTS?

A. To the extent that costs in Attachment B, Section C of the Circular are treated as indirect costs by a State, negotiation of the State-wide cost allocation plan and indirect cost proposal(s) by the responsible Federal agency for negotiation shall constitute approval of the Section C costs included in the plan(s). Where Section C costs are to be treated as direct grant program costs by the State, necessary approval must be obtained from Federal grant program personnel responsible for program accomplishment. States should strive for consistent treatment of these costs to the maximum degree possible. Within the confines of program needs, Department of Health, Education and Welfare grant program personnel will be encouraged to facilitate State endeavors to accomplish this end.

Q. SOME GRANT PROGRAMS ARE AWARDED TO THE OFFICE OF THE GOVERNOR OF A STATE. ARE THESE GRANTS PRECLUDED FOM RECOVERING INDIRECT COSTS UNDER ATTACHMENT B, SECTION D.6., OF THE CIRCULAR?

A. The general expenses required to carry out the overall responsibilities of State government are unallowable. Attachment B, Section D.6. of the Circular identifies Governor's expenses as a general expense of government and therefore an unallowable cost. However, if in addition to general expenses, the Office of the Governor incurs special, identifiable expenses pursuant to Federal grants and contracts actually administered by the Governor's office, then the special expenses are allowable costs if they otherwise meet the standards of allowability provided in the Circular.

Q. WHERE CAN STATES RECEIVE ADDITIONAL INFORMATION OR CLARIFICATION ON THE IMPLEMENTATION OF CIRCULAR A–87?

A. The staff of the Division of Grants Administration Policy, Office of the Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, are prepared to answer questions of State government personnel affected by or involved in the implementation of Circular A–87, and to render assistance to the extent resources allow. Questions should be directed to the Cost Policy and Rate Negotiation Branch, telephone number: area code 201, 962–6661.

SECTION IV-APPENDICES
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APPENDIX 1

EXECUTIVE OFFICE OF THE PRESIDENT
Bureau of the Budget
Washington, D.C. 20503

May 9, 1968 CIRCULAR NO. A-87

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Principles for determining costs applicable to grants and contracts with State and local governments

1. *Purpose.* This Circular promulgates principles and standards for determining costs applicable to grants and contracts with State and local governments. They are designed to provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between grantees and their Federal counterparts.

2. *Coverage.* This Circular applies to all Federal agencies responsible for administering programs that involve grants and contracts with State and local governments. However, it does not apply to grants and contracts with (a) publicly financed educational institutions subject to Bureau of the Budget Circular No. A–21, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies. Any other exceptions will be approved by the Bureau of the Budget in particular cases where adequate justification is presented.

3. *Cost principles.* The principles to be followed in determining costs are set forth in Attachment A. Standards with respect to the allowability of selected items of cost are set forth in Attachment B.

4. *Effective date.* The principles will be applied at the earliest practicable date but not later than January 1, 1969,* with respect to State governments and January 1, 1970, with respect to local governments. This arrangement will permit prompt implementation in programs where that is possible, but also allow time for study and development of necessary procedures in more complex programs.

PHILLIP S. HUGHES
Acting Director

Attachments

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*The Bureau of the Budget has revised this date to July 1, 1969.

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ATTACHMENT A
Circular No. A–87

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND CONTRACTS WITH STATE AND LOCAL GOVERNMENTS

A. *Purpose and scope.*

1. *Objectives.* This Attachment sets forth principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a particular grant. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.

2. *Policy guides.* The application of these principles is based on the fundamental premises that:

a. State and local governments are responsible for the efficient and effective administration of grant and contract programs through the application of sound management practices.

b. The grantee or contractor assumes the responsibility for seeing that Federally assisted program funds have been expended and accounted for consistent with underlying agreements and program objectives.

c. Each grantee or contractor organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.

3. *Application.* These principles will be applied by all Federal agencies in determining costs incurred by State and local governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) except those with (a) publicly financed educational institutions subject to Bureau of the Budget Circular A–21, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

B. *Definitions.*

1. *Approval or authorization of the grantor Federal agency* means documentation evidencing consent prior to incurring specific cost.

2. *Cost allocation plan* means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used.

3. *Cost,* as used herein, means cost as determined on a cash, accrual, or other basis acceptable to the Federal grantor agency as a discharge of the grantee's accountability for Federal funds.

4. *Cost objective* means a pool, center, or area established for the accumulation of cost. Such areas include organizational units, functions, objects or items of expense, as well as ultimate cost objectives including specific grants, projects, contracts, and other activities.

5. *Federal agency* means any department, agency, commission, or instrumentality in the executive branch of the Federal Government which makes grants to or contracts with State or local governments.

6. *Grant* means an agreement between the Federal Government and a State or local government whereby the Federal Government provides funds or aid in kind to carry out specified programs, services, or activities.

The principles and policies stated in this Circular as applicable to grants in general also apply to any Federally sponsored cost reimbursement type of agreement performed by a State or local government, including contracts, subcontracts and subgrants.

7. *Grant program* means those activities and operations of the grantee which are necessary to carry out the purposes of the grant, including any portion of the program financed by the grantee.

8. *Grantee* means the department or agency of State or local government which is responsible for administration of the grant.

9. *Local unit* means any political subdivision of government below the State level.

10. *Other State or local agencies* means departments or agencies of the State or local unit which provide goods, facilities, and services to a grantee.

11. *Services*, as used herein, means goods and facilities, as well as services.

12. *Supporting services* means auxiliary functions necessary to sustain the direct effort involved in administering a grant program or an activity providing service to the grant program. These services may be centralized in the grantee department or in some other agency, and include procurement, payroll, personnel functions, maintenance and operation of space, data processing, accounting, budgeting, auditing, mail and messenger service, and the like.

C. *Basic guidelines.*

1. *Factors affecting allowability of costs.* To be allowable under a grant program, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient administration of the grant program, be allocable thereto under these principles, and, except as specifically provided herein, not be a general expense required to carry out the overall responsibilities of State or local governments.

b. Be authorized or not prohibited under State or local laws or regulations.

c. Conform to any limitations or exclusions set forth in these principles, Federal laws, or other governing limitations as to types or amounts of cost items.

d. Be consistent with policies, regulations, and procedures that apply uniformly to both Federally assisted and other activities of the unit of government of which the grantee is a part.

e. Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

f. Not be allocable to or included as a cost of any other Federally financed program in either the current or a prior period.

g. Be net of all applicable credits.

2. *Allocable costs.*

a. A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

b. Any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

c. Where an allocation of joint cost will ultimately result in charges to a grant program, an allocation plan will be required as prescribed in section J.

3. *Applicable credits.*

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipment, and scrap; income from personal or incidental services; and adjustments of overpayments or erroneous charges.

b. Applicable credits may also arise when Federal funds are received or are available from sources other than the grant program involved to finance operations or capital items of the grantee. This includes costs arising from the use or depreciation of items donated or financed by the Federal Government to fulfill matching requirements under another grant program. These types of credits should likewise be used to reduce related expenditures in determining the rates or amounts applicable to a given grant.

D. *Composition of cost.*

1. *Total cost.* The total cost of a grant program is comprised of the allowable direct cost incident to its performance, plus its allocable portion of allowable indirect costs, less applicable credits.

2. *Classification of costs.* There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential therefore that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under grant programs are provided in the sections which follow.

E. *Direct costs.*

1. *General.* Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged. Direct costs may also be charged to cost objectives used for the accumulation of costs pending distribution in due course to grants and other ultimate cost objectives.

2. *Application.* Typical direct costs chargeable to grant programs are:

a. Compensation of employees for the time and effort devoted specifically to the execution of grant programs.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of the grant.

c. Equipment and other approved capital expenditures.

d. Other items of expense incurred specifically to carry out the grant agreement.

e. Services furnished specifically for the grant program by other agencies, provided such charges are consistent with criteria outlined in Section G. of these principles.

F. *Indirect costs.*

1. *General.* Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department as well as those incurred by other departments in supplying goods, services, and facilities, to the grantee department. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect cost within a grantee department or in other agencies providing services to a grantee department. Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.

2. *Grantee departmental indirect costs.* All grantee departmental indirect costs, including the various levels of supervision, are eligible for allocation to grant programs provided they meet the conditions set forth in this Circular. In lieu of determining the actual amount of grantee departmental indirect cost allocable to a grant program, the following methods may be used:

a. *Predetermined fixed rates for indirect costs.* A predetermined fixed rate for computing indirect costs applicable to a grant may be negotiated annually in situations where the cost experience and other pertinent facts available are deemed sufficient to enable the contracting parties to reach an informed judgment (1) as to the probable level of indirect costs in the grantee department during the period to be covered by the negotiated rate, and (2) that the amount allowable under the predetermined rate would not exceed actual indirect costs.

b. *Negotiated lump sum for overhead.* A negotiated fixed amount in lieu of indirect costs may be appropriate under circumstances where the benefits derived from a grantee department's indirect services cannot be readily determined as in the case of small, self-contained or isolated activity. When this method is used, a determination should be made that the amount negotiated will be approximately the same as the actual indirect cost that may be incurred. Such amounts negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses of the grantee department before allocation to remaining activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

3. *Limitation on indirect costs.*

a. Federal grants may be subject to laws that limit the amount of indirect cost that may be allowed. Agencies that sponsor grants of this type will establish procedures which will assure that the amount actually allowed for indirect costs under each such grant does not exceed the maximum allowable under the statutory limitation or the amount otherwise allowable under this Circular, whichever is the smaller.

b. When the amount allowable under a statutory limitation is less than the amount otherwise allocable as indirect costs under this Circular, the amount not recoverable as indirect costs under a grant may not be shifted to another Federally sponsored grant program or contract.

G. *Cost incurred by agencies other than the grantee.*

1. *General.* The cost of service provided by other agencies may only include allowable direct costs of the service plus a prorata share of allowable supporting costs (section B.12.) and supervision directly required in performing the service, but not supervision of a general nature such as that provided by the head of a department and his staff assistants not directly involved in operations. However, supervision by the head of a department or agency whose sole function is providing the service furnished would be an eligible cost. Supporting costs include those furnished by other units of the supplying department or by other agencies.

2. *Alternative methods of determining indirect cost.* In lieu of determining actual indirect cost related to a particular service furnished by another agency, either of the following alternative methods may be used provided only one method is used for a specific service during the fiscal year involved.

a. *Standard indirect rate.* An amount equal to ten percent of direct labor cost in providing the service performed by another State agency (excluding overtime, shift, or holiday premiums and fringe benefits) may be allowed in lieu of actual allowable indirect cost for that service.

b. *Predetermined fixed rate.* A predetermined fixed rate for indirect cost of the unit or activity providing service may be negotiated as set forth in section F.2.a.

H. *Cost incurred by grantee department for others.*

1. *General.* The principles provided in section G. will also be used in determining the cost of services provided by the grantee department to another agency.

J. *Cost allocation plan.*

1. *General.* A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges.

2. *Requirements.* The allocation plan of the grantee department should cover all joint costs of the department as well as costs to be allocated under plans of other agencies or organizational units which are to be included in the costs of Federally sponsored programs. The cost allocation plans of all the agencies rendering services to the

grantee department, to the extent feasible, should be presented in a single document. The allocation plan should contain, but not necessarily be limited to, the following:

a. The nature and extent of services provided and their relevance to the Federally sponsored programs.

b. The items of expense to be included.

c. The methods to be used in distributing cost.

3. *Approval of cost allocation plan.* The allocation plan for a given cost area or objective will serve all the Federal agencies involved.

a. At the State level, the Department of Health, Education, and Welfare will be responsible for the negotiation and approval of the cost allocation plans for central support services to grant programs. The approved plans will be accepted by other Federal agencies, unless an agency determines that the approved plan would result in significant inequitable or improper charges to programs for which it is responsible. The Department of Health, Education, and Welfare will collaborate with the other Federal agencies concerned in the development of guidance material concerning the cost allocation plan and in the negotiation and approval of the plan. It will also collaborate with the States concerning procedures for the administration of the cost allocation plan. The Department of Health, Education, and Welfare will be responsible for the audit of costs resulting from the cost allocation plan, the results of which will be accepted by other Federal agencies.

b. At the grantee department level in a State, and for local governments, Federal agencies will work towards the objective of designating a single Federal agency, the one with predominant interest, which will have responsibility similar to that set forth in a. above for the negotiation and approval of the cost allocation plan and for the audit of costs.

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STANDARDS FOR SELECTED ITEMS OF COST

A. *Purpose and applicability.*

1. *Objective.* This Attachment provides standards for determining the allowability of selected items of cost.

2. *Application.* These standards will apply irrespective of whether a particular item of cost is treated as direct or indirect cost. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable, rather determination of allowability in each case should be based on the treatment of standards provided for similar or related items of cost. The allowability of the selected items of cost is subject to the general policies and principles stated in Attachment A of this Circular.

B. *Allowable costs.*

1. *Accounting.* The cost of establishing and maintaining accounting and other information systems required for the management of grant programs is allowable. This includes cost incurred by central service agencies for these purposes. The cost of maintaining central accounting records required for overall State or local government purposes, such as appropriation and fund accounts by the Treasurer, Comptroller, or similar officials, is considered to be a general expense of government and is not allowable.

2. *Advertising.* Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:

a. Recruitment of personnel required for the grant program.

b. Solicitation of bids for the procurement of goods and services required.

c. Disposal of scrap or surplus materials acquired in the performance of the grant agreement.

d. Other purposes specifically provided for in the grant agreement.

3. *Advisory councils.* Costs incurred by State advisory councils or committees established pursuant to Federal requirements to carry out grant programs are allowable. The cost of like organizations is allowable when provided for in the grant agreement.

4. *Audit service.* The cost of audits necessary for the administration and management of functions related to grant programs is allowable.

5. *Bonding.* Costs of premiums on bonds covering employees who handle grantee agency funds are allowable.

6. *Budgeting.* Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. Costs for services of a central budget office are generally not allowable since these are costs of general government. However, where employees of the central budget office actively participate in the grantee agency's budget process, the cost of identifiable services is allowable.

7. *Building lease management.* The administrative cost for lease management which includes review of lease proposals, maintenance of a list of available property for lease, and related activities is allowable.

8. *Central stores.* The cost of maintaining and operating a central stores organization for supplies, equipment, and materials used either directly or indirectly for grant programs is allowable.

9. *Communications.* Communication costs incurred for telephone calls or service, telegraph, teletype service, wide area telephone service (WATS), centrex, telpak (tie lines), postage, messenger service and similar expenses are allowable.

10. *Compensation for personal services.*

a. *General.* Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits (section B.13.). The costs of such compensation are allowable to the extent that total compensation for individual employees: (1) is reasonable for the services rendered, (2) follows an appointment made in accordance with State or local government laws and rules and which meets Federal merit system or other requirements, where applicable; and (3) is determined and supported as provided in b. below. Compensation for employees engaged in Federally assisted activities will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the State or local government. In cases where the kinds of employees required for the Federally assisted activities are not found in the other activities of the State or local government, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

b. *Payroll and distribution of time.* Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and approved in accordance with generally accepted practice of the State or local agency. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

11. *Depreciation and use allowances.*

a. Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. Use allowances are the means of providing compensation in lieu of depreciation or other equivalent costs. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

b. The computation of depreciation or use allowance will be based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The computation will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government through charges to Federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides. In addition, the computation will also exclude the cost of land. Depreciation or a use allowance on idle or excess facilities is not allowable, except when specifically authorized by the grantor Federal agency.

c. Where the depreciation method is followed, adequate property records must be maintained, and any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected federally sponsored programs and must result in equitable charges considering the extent of the use of the assets for the benefit of such programs.

d. In lieu of depreciation, a use allowance for buildings and improvements may be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment (excluding items properly capitalized as building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment.

e. No depreciation or use charge may be allowed on any assets that would be considered as fully depreciated, provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.

12. *Disbursing service.* The cost of disbursing grant program funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.

13. *Employee fringe benefits.* Costs identified under a. and b. below are allowable to the extent that total compensation for employees is reasonable as defined in section B.10.

a. Employee benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are: (1) provided pursuant to an approved leave system, and (2) the cost thereof is equitably allocated to all related activities, including grant programs.

b. Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, workmen's compensation insurance, pension plans, severance pay, and the like, provided such benefits are granted under approved plans and are distributed equitably to grant programs and to other activities.

14. *Employee morale, health and welfare costs.* The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employees' counseling services, employee information publications, and any related expenses incurred in accordance with general State or local policy, are allowable. Income generated from any of these activities will be offset against expenses.

15. *Exhibits.* Costs of exhibits relating specifically to the grant programs are allowable.

16. *Legal expenses.* The cost of legal expenses required in the administration of grant programs is allowable. Legal services furnished by the chief legal officer of a State or local government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against the Federal Government are unallowable.

17. *Maintenance and repair.* Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

18. *Materials and supplies.* The cost of materials and supplies necessary to carry out the grant programs is allowable. Purchases made specifically for the grant program should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

19. *Memberships, subscriptions and professional activities.*

a. *Memberships.* The cost of membership in civic, business, technical and professional organizations is allowable provided: (1) the benefit from the membership is related to the grant program, (2) the expenditure is for agency membership, (3) the cost of the membership is reasonably related to the value of the services or benefits received, and (4) the expenditure is not for membership in an organization which devotes a substantial part of its activities to influencing legislation.

b. *Reference material.* The cost of books, and subscriptions to civic, business, professional, and technical periodicals is allowable when related to the grant program.

c. *Meetings and conferences.* Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee.

20. *Motor pools.* The costs of a service organization which provides automobiles to user grantee agencies at a mileage or fixed rate and/or provides vehicle maintenance, inspection and repair services are allowable.

21. *Payroll preparation.* The cost of preparing payrolls and maintaining necessary related wage records is allowable.

22. *Personnel administration.* Costs for the recruitment, examination, certification, classification, training, establishment of pay standards and related activities for grant programs, are allowable.

23. *Printing and reproduction.* Cost for printing and reproduction services necessary for grant administration, including but not limited to forms, reports, manuals, and informational literature, are allowable. Publication costs of reports or other media relating to grant program accomplishments or results are allowable when provided for in the grant agreement.

24. *Procurement service.* The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities and services for grant programs, is allowable.

25. *Taxes.* In general, taxes or payments in lieu of taxes which the grantee agency is legally required to pay are allowable.

26. *Training and education.* The cost of in-service training, customarily provided for employee development which directly or indirectly benefits grant programs is allowable. Out-of-service training involving extended periods of time is allowable only when specifically authorized by the grantor agency.

27. *Transportation.* Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.

28. *Travel.* Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business incident to a grant program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in nonfederally sponsored activities. The difference in cost between first-class air accommodations and less-than-first-class air accommodations is unallowable except when less-than-first-class air accommodations are not reasonably available.

C. *Costs allowable with approval of grantor agency.*

1. *Automatic data processing.* The cost of data processing services to grant programs is allowable. This cost may include rental of equipment or depreciation on grantee-owned equipment. The acquisition of equipment, whether by outright purchase, rental-purchase agreement or other method of purchase, is allowable only upon specific prior approval of the grantor Federal agency as provided under the selected item for capital expenditures.

2. *Building space and related facilities.* The cost of space in privately or publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. The cost of space procured for grant

program usage may not be charged to the program for periods of nonoccupancy, without authorization of the grantor Federal agency.

a. *Rental cost.* The rental cost of space in a privately owned building is allowable.

b. *Maintenance and operation.* The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent they are not otherwise included in rental or other charges for space.

c. *Rearrangements and alterations.* Cost incurred for rearrangement and alteration of facilities required specifically for the grant program or those that materially increase the value or useful life of the facilities (section C.3.) are allowable when specifically approved by the grantor agency.

d. *Depreciation and use allowances on publicly owned buildings.* These costs are allowable as provided in section B.11.

e. *Occupancy of space under rental-purchase or lease with option-to-purchase agreement.* The cost of space procured under such arrangements is allowable when specifically approved by the Federal grantor agency.

3. *Capital expenditures.* The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency. When assets acquired with Federal grant funds are (a) sold, (b) no longer available for use in a federally sponsored program, or (c) used for purposes not authorized by the grantor agency, the Federal grantor agency's equity in the asset will be refunded in the same proportion as Federal participation in its cost. In case any assets are traded on new items, only the net cost of the newly acquired assets is allowable.

4. *Insurance and indemnification.*

a. Costs of insurance required, or approved and maintained pursuant to the grant agreement, is allowable.

b. Costs of other insurance in connection with the general conduct of activities is allowable subject to the following limitations:

(1) Types and extent and cost of coverage will be in accordance with general State or local government policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property is unallowable except to the extent that the grantor agency has specifically required or approved such costs.

c. Contributions to a reserve for a self-insurance program approved by the Federal grantor agency are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.

e. *Indemnification* includes securing the grantee against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the grantee only to the extent expressly provided for in the grant agreement, except as provided in d. above.

5. *Management studies.* The cost of management studies to improve the effectiveness and efficiency of grant management for ongoing programs is allowable except that the cost of studies performed by agencies other than the grantee department or outside consultants is allowable only when authorized by the Federal grantor agency.

6. *Preagreement costs.* Costs incurred prior to the effective date of the grant or contract, whether or not they would have been allowable thereunder if incurred after such date, are allowable when specifically provided for in the grant agreement.

7. *Professional services.* Cost of professional services rendered by individuals or organizations not a part of the grantee department is allowable subject to such prior authorization as may be required by the Federal grantor agency.

8. *Proposal costs.* Costs of preparing proposals on potential Federal Government grant agreements are allowable when specifically provided for in the grant agreement.

D. *Unallowable costs.*

1. *Bad debts.* Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable.

2. *Contingencies.* Contributions to a contingency reserve or any similar provision for unforeseen events are unallowable.

3. *Contributions and donations.* Unallowable.

4. *Entertainment.* Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.

5. *Fines and penalties.* Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.

6. *Governor's expenses.* The salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision are considered a cost of general State or local government and are unallowable.

7. *Interest and other financial costs.* Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation.

8. *Legislative expenses.* Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction, are unallowable.

9. *Underrecovery of costs under grant agreements.* Any excess of cost over the Federal contribution under one grant agreement is unallowable under other grant agreements.

APPENDIX 2

SAMPLE COST ALLOCATION PLAN FORMATS

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    - Exhibit E—Sample Agency Plan (Centralized Purchasing Services) 46

DESCRIPTION OF EXHIBIT A

Exhibit A illustrates the distribution of Departmental Costs into the categories (1) Indirect Costs and, (2) Expenditures For All Other Purposes, after eliminating costs for Exclusions and Expenditures Not Allowable, such as capital expenditures. Under the short method of Exhibit A, where indirect costs cannot be identified at the Division or Bureau level, all costs are treated as direct costs. The simplified method of Exhibit B may be used where indirect costs at the Division or Bureau level can be identified.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT-SHORT METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19___

	Costs Incurred By Other State Agencies	Departmental Costs (c)				
		Exclusions (a)	Expenditures Not Allowable (b)	Indirect Costs	Expenditures For All Other Purposes	Total
Divisions/Bureaus						
Environmental Health			$150,000		$3,971,000	$4,121,000
Maternal and Child Health			40,000		6,197,000	6,237,000
Occupational Health			6,000		287,000	293,000
Chronic Diseases			27,000		3,575,000	3,602,000
Vital Statistics			15,000		2,630,000 (f)	2,645,000
Preventable Diseases			10,000		450,000	460,000
Solid Waste Disposal			102,000		971,000	1,073,000
Dental Health			3,000		415,000	418,000
Grants and Subsidies to Localities		$22,500,000				22,500,000
		$22,500,000	$353,000		$18,496,000	$41,349,000
Departmental Indirect Costs						
Office of the Commissioner				$288,100		$288,100
Financial Management				235,600		235,600
Operation and Maintenance of Plant				895,900		895,900
Administrative Services				126,400		126,400
Equipment Use Charges				96,300		96,300
Building Use Charges				157,600		157,600
Total Departmental Costs (d)		$22,500,000	$353,000	$1,799,900	$18,496,000	$43,148,900
Services Furnished (But Not Billed) By Other State Agencies (e)						
Accounting Services	$86,000			86,000		86,000
Personnel Administration	9,000			9,000		9,000
Centralized Purchasing	21,000			21,000		21,000
	$116,000					
		$22,500,000	$353,000	$1,915,900	$18,496,000	$43,264,900

EXHIBIT A—Explanatory Notes

(a) In this example, it is assumed that grants and subsidies to localities do not constitute costs and do not generate significant direct and/or indirect costs. However, if the grantee incurs a significant amount of direct and/or indirect costs in administering the grants and subsidies to localities, then this function should be assessed for its equitable share of those costs.

(b) The Expenditures Not Allowable represent costs of capital expeditures and other costs which are unallowable in accordance with the cost principles and should be excluded from the computation of the indirect cost rate. However, indirect costs should be allocated to Expenditures Not Allowable for those expenditures that either generated or benefited from the indirect costs where the dollar effect is sufficiently material to warrant such allocation.

(c) Under the short method, a determination is first made as to which functions are direct functions (illustrated under the heading Divisions/Bureaus) and which functions are indirect functions (illustrated under the heading Departmental Indirect Costs). Within the heading Divisions/Bureaus, all costs are treated as direct costs since indirect costs cannot be identified.

(d) Total Departmental Costs should be reconciled to and accompanied by a copy of the financial statements of the grantee agency.

(e) The costs of Services Furnished (But Not Billed) By Other State Agencies must be in agreement with the amounts shown on the Consolidated State-Wide Cost Allocation Plan—Exhibit D. In this illustration, costs of $116,000 allocated from the Consolidated State-Wide Cost Allocation Plan represent costs that are allocable to the entire Department.

(f) This amount includes $53,000 for data processing Services Furnished (And Billed) By Other State Agencies for programs within the Division of Vital Statistics. See Exhibit D.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT A–1

The totals from Exhibit A are brought forward to this Exhibit. This indirect cost rate is expressed as a percentage resulting from the ratio of allowable indirect costs ($1,915,900) to allowable expenditures for all other purposes ($18,496,000). In the example set forth in Exhibit A, this produces an indirect cost rate of 10.4%, applicable to total direct costs, less capital expenditures.

EXHIBIT A–1

SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-SHORT METHOD*

STATE X

DEPARTMENT OF HEALTH

FOR THE YEAR ENDED JUNE 30, 19___

	Total	Less: Exclusions and Expenditures Not Allowable	Indirect Costs	Expenditures for All Other Purposes
TOTALS (Exhibit A)	$43,264,900	$22,853,000	$1,915,900	$18,496,000
			(A)	(B)

Computation of Indirect Cost Rate

$$\text{(A)} \div \text{(B)} = \frac{\$1{,}915{,}900}{\$18{,}496{,}000}$$ = Indirect Cost Rate of 10.4% of total direct costs less capital expenditures

*This is a sample only and is not intended to prescribe methods of charging costs.

DESCRIPTION OF EXHIBIT B

Exhibit B illustrates the distribution of Departmental Costs into the categories (1) Indirect Costs and (2), Expenditures for All Other Purposes, after eliminating costs for Exclusions and Expenditures Not Allowable, such as capital expenditures. Exhibit B differs from Exhibit A in that recognition is given to the indirect costs within each Division or Bureau. Under the short method of Exhibit A, where indirect costs cannot be identified at the Division or Bureau level, all costs are treated as direct costs. Under the Simplified method shown in this Exhibit, indirect costs can be identified at the Division or Bureau level, and are so indicated.

EXHIBIT B

SAMPLE INDIRECT COST PROPOSAL FORMAT-SIMPLIFIED METHOD*
STATE X
DEPARTMENT OF HEALTH
FOR THE YEAR ENDED JUNE 30, 19___

	Costs Incurred By Other State Agencies	Departmental Costs (c)				
		Exclusions (a)	Expenditures Not Allowable (b)	Indirect Costs	Expenditures For All Other Purposes	Total
Divisions/Bureaus						
Environmental Health			$150,000	$175,000	$3,796,000	$4,121,000
Maternal and Child Health			40,000	844,000	5,353,000	6,237,000
Occupational Health			6,000	47,000	240,000	293,000
Chronic Diseases			27,000	172,000	3,403,000	3,602,000
Vital Statistics			15,000	147,000	2,483,000(f)	2,645,000
Preventable Diseases			10,000	13,000	437,000	460,000
Solid Waste Disposal			102,000	67,000	904,000	1,073,000
Dental Health			3,000	24,000	391,000	418,000
Grants and Subsidies to Localities		$22,500,000				22,500,000
		$22,500,000	$353,000	$1,489,000	$17,007,000	$41,349,000
Departmental Indirect Costs						
Office of the Commissioner				288,100		288,100
Financial Management				235,600		235,600
Operation and Maintenance of Plant				895,900		895,900
Administrative Services				126,400		126,400
Equipment Use Charges				96,300		96,300
Building Use Charges				157,600		157,600
Total Departmental Costs (d)		$22,500,000	$353,000	$3,288,900	$17,007,000	$43,148,900
Services Furnished (But Not Billed) By Other State Agencies (e)						
Accounting Services	$86,000			86,000		86,000
Personnel Administration	9,000			9,000		9,000
Centralized Purchasing	21,000			21,000		21,000
	$116,000					
		$22,500,000	$353,000	$3,404,900	$17,007,000	$43,264,900

EXHIBIT B—Explanatory Notes

(a) In this example, it is assumed that grants and subsidies to localities do not constitute costs and do not generate significant direct and/or indirect costs. However, if the grantee incurs a significant amount of direct and/or indirect costs in administering the grants and subsidies to localities, then this function should be assessed for its equitable share of those costs.

(b) The Expenditures Not Allowable represent costs of capital expenditures and other costs which are unallowable in accordance with the cost principles and should be excluded from the computation of the indirect cost rate. However, indirect costs should be allocated to Expenditures Not Allowable for those expenditures that either generated or benefited from the indirect costs where the dollar effect is sufficiently material to warrant such allocation.

(c) Under the simplified method, a determination is first made as to which functions are direct functions (illustrated under the heading Divisions/Bureaus) and which functions are indirect functions (illustrated under the heading Departmental Indirect Costs). Within the heading Divisions/Bureaus, costs are identified as either (1) Indirect Costs, or as (2) Expenditures For All Other Purposes, after eliminating Exclusions and Expenditures Not Allowable. An example of a division or bureau indirect cost may, for instance, in the Environmental Health Division, include such costs as salaries and expenses of the Division Head, the Assistant Division Head, and their secretaries, as well as the salaries and expense of other sub-units performing staff or service functions within the Division.

(d) Total Departmental Costs should be reconciled to and accompanied by a copy of the financial statements of the grantee agency.

(e) The costs of Services Furnished (But Not Billed) By Other State Agencies must be in agreement with the amounts shown on the Consolidated State-Wide Cost Allocation Plan—Exhibit D. In this illustration, costs of $116,000 allocated from the Consolidated State-Wide Cost Allocation Plan represent costs that are allocable to the entire Department.

(f) This amount includes $53,000 for data processing Services Furnished (And Billed) By Other State Agencies for programs within the Division of Vital Statistics. See Exhibit D.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT B–1

The totals from Exhibit B are brought forward to this Exhibit. The indirect cost rate is expressed as a percentage resulting from the ratio of allowable indirect costs ($3,404,900) to allowable expenditures for all other purposes ($17,007,000). In the example set forth in Exhibit B this produces an indirect cost rate of 20.0%, applicable to total direct costs, less capital expenditures.

EXHIBIT B–1

SAMPLE INDIRECT COST RATE PROPOSAL FORMAT-SIMPLIFIED METHOD*

STATE X
DEPARTMENT OF HEALTH
FOR THE YEAR ENDED JUNE 30, 19___

	Total	Less: Exclusions and Expenditures Not Allowable	Indirect Costs	Expenditures for All Other Purposes
TOTALS (Exhibit B)	$43,264,900	$22,853,000	$3,404,900	$17,007,000
			(A)	(B)

Computation of Indirect Cost Rate

$(A) \div (B) = \frac{\$3{,}404{,}900}{\$17{,}007{,}000}$ = Indirect Cost Rate of 20% of total direct costs less capital expenditures

---

*This is a sample only and is not intended to prescribe methods of charging costs.

DESCRIPTION OF EXHIBIT C

Exhibit C illustrates the distribution of indirect costs to functional Divisions or Bureaus in order to determine separate indirect cost rates applicable to each Division/Bureau. This distribution method permits more definitive costing in those instances where operating differences between Divisions/Bureaus are material in amount and would warrant the additional computations necessary.

This computation recognizes indirect costs of (1) each Division and Bureau, (2) the Department, as well as the cost of Services Furnished (But Not Billed) By Other State Agencies. These indirect costs are allocated to the functional Divisions/Bureaus on bases which most fairly give effect to either those Divisions/Bureaus that generated the cost or those Divisions/Bureaus that benefit from the cost. Indirect costs of the Divisions/Bureaus, if identified, need not be allocated since they are already recorded as indirect costs of their respective Divisions/Bureaus. For example, accounting services furnished by other State agencies may be allocated to the Divisions/Bureaus based on the total direct costs incurred by the Divisions/Bureaus, while personnel administration may be allocated on a base of direct salaries and wages.

Indirect costs allocated from the Department and from other agencies are added to indirect costs incurred by each of the functional Divisions/Bureaus to arrive at total indirect costs for each of the Divisions/Bureaus. A rate is then developed for each of the functional Divisions/Bureaus by relating the indirect costs to the direct salaries and wages or total direct costs, excluding capital expenditures, for each of the Divisions/Bureaus.

EXHIBIT C
SAMPLE INDIRECT COST PROPOSAL FORMAT—MULTIPLE RATE METHOD*
STATE X
DEPARTMENT OF HEALTH
FOR THE YEAR ENDED JUNE 30, 19___

	Allocation	Total Indirect Costs	Other State Agencies (c) (h)			Use Charges		Departmental Costs (d) (h)				Total Indirect Expense
	Base (a)	(b)	Accounting	Personnel	Supplies	Equipment	Buildings	O&M	Adm.	Fin. Mgmt.	Off. Comm.	
Services Furnished (But Not Billed) By Other State Agencies (f)												
Accounting Services	Total Direct Cost	$ 86,000 (e)	$(86,000)									
Personnel Administration	Direct Sal & Wages	9,000		$(9,000)								
Centralized Purchasing	$ of Supplies requisitioned	21,000			$(21,000)							
Sub-total		$ 116,000										
Departmental Indirect Costs												
Equipment use charges	User of Equipment	$ 96,300				$(96,300)						
Building use charges	Sq. ft.	157,600					$(157,600)					
Operation and Maintenance	Sq. ft.	895,900						$(895,900)				
Administrative Services	Direct Sal. & Wages	126,400							$(126,400)			
Financial Management	Direct Sal. & Wages	235,600								$(235,600)		
Office of the Commissioner	Total Dir. Cost	288,100									$(288,100)	
Sub-total		$1,799,900										
Divisions/Bureaus												
Environmental Health		$ 175,000	19,200	1,200	3,800	20,400	15,300	87,000	17,200	32,000	64,300	$ 435,400
Maternal & Child Health		844,000	27,100	3,500	5,600	19,800	91,800	521,900	48,500	90,400	90,700	1,743,300
Occupational Health		47,000	1,200	100	700	900	4,600	26,100	1,500	2,900	4,100	89,100
Chronic Diseases		172,000	17,200	1,900	3,500	12,500	19,900	113,000	26,500	49,300	57,600	473,400
Vital Statistics		147,000	12,500	1,300	2,900	37,200	13,000	73,900	18,800	35,100	42,100	383,800
Preventable Diseases		13,000	2,200	200	900	500	3,800	21,800	2,600	4,800	7,400	57,200
Solid Waste Disposal		67,000	4,600	600	2,500	4,600	5,400	30,400	8,600	16,000	15,300	155,000
Dental Health		24,000	2.000	200	1,100	400	3,800	21.800	2,700	5,100	6,600	67,700
Grants and Subsidies to Localities		(h)										
Sub-total		$1,489,000										
Exclusions		(h)										
		$3,404,900	—0—	—0—	—0—	—0—	—0—	—0—	—0—	—0—	—0—	$3,404,900
												(g)

Exhibit C—Explanatory Notes

(a) The allocation bases used were selected as reasonable and applicable under the circumstances. Other bases would be just as acceptable if they represented a fair measure of cost generation or cost benefit.

(b) Services Furnished (But Not Billed) By Other State Agencies and indirect costs at the Department level are included in the computation of the total indirect cost of each functional Division/Bureau.

(c) Services Furnished (But Not Billed) By Other State Agencies are allocated to each functional Division/Bureau. A further allocation of these services could have been made to departmental service and administrative divisions if the results of such allocation would have a material effect on the rates to be computed. In the samples presented, the dollar effect is not sufficiently material to warrant the additional allocation.

(d) Departmental Indirect Costs are allocated to each functional Division/Bureau. Certain departmental service divisions, such as operation and maintenance, could have been allocated to other service or administrative divisions if the results of such allocation would have a material effect on the rates to be computed. In the sample presented, the dollar effect is not sufficiently material to warrant the additional allocation.

(e) Accounting services rendered by other agencies are allocated to the functional Divisions/Bureaus on the basis of total direct costs. Exhibit C–1, Column C shows the total direct cost for the functional Divisions/Bureaus to be $17,007,000. The Environmental Health Division has incurred total direct costs of $3,796,000. This ratio ($3,796,000/$17,007,000=22.32%) applied to the accounting services furnished ($86,000 x 22.32%) results in an allocation of $19,200 to the Environmental Health Division. This method of allocation is used to arrive at the amount of accounting services to be allocated to each functional Division/Bureau.

(f) The costs of Services Furnished (But Not Billed) By Other State Agencies is derived from the Consolidated State-Wide Cost Allocation Plan shown in Exhibit D. In this illustration, costs of $116,000 allocated from the Consolidated State-Wide Cost Allocation Plan represent costs that are allocable to the entire **Department.**

(g) The total indirect expenses developed for each Division/Bureau are carried forward to Exhibit C–1, where the relationship between the indirect expenses and the direct expenses of each of the Divisions/Bureaus is used to establish overhead rates.

(h) Both (1) Services Furnished (But Not Billed) By Other State Agencies and, (2) Departmental Indirect Costs should be allocated to Exclusions and Expeditures Not Allowable where these classifications either generated or benefited from the indirect costs and the dollar effect is sufficiently material to warrant the additional allocation.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT C–1

The total indirect costs developed for each of the Divisions/Bureaus are brought forward to this Exhibit. The ratio of indirect costs to direct salaries and wages or indirect costs to total direct costs less capital expenditures for each of the Divisions and Bureaus is used to arrive at indirect cost rates (expressed as percentages). For example, the Environmental Health Division has accumulated indirect costs of $435,400 (Column A) and direct salaries and wages of $1,610,000 (Column B). The ratio of Column A to Column B results in an indirect cost rate of 27.0%. This exhibit shows rates developed for each Division/Bureau on two bases, direct salaries and wages and total direct costs less capital expenditures. Rates should generally be submitted on one base only, using that base which results in a more equitable distribution of indirect costs to direct activities.

EXHIBIT C–1

SAMPLE INDIRECT COST RATE FORMAT-MULTIPLE RATE METHOD*
STATE X
DEPARTMENT OF HEALTH
FOR THE YEAR ENDED JUNE 30, 19___

Divisions/Bureaus	Total Indirect Expenses (c) (A)	Direct Salaries & Wages (B)	All Other Direct Costs Less Capital Expendtures	Total Direct Costs Less Capital Expenditures (C)	Indirect Cost Rate (b) Direct Salaries & Wages (A÷B)	Indirect Cost Rate (b) Direct Costs Less Capital Expenditures (A÷C)
Environmental Health	$ 435,400	$ 1,610,000	$2,186,000	$ 3,796,000	27.0%	11.5%
Maternal & Child Health	1,743,300	4,550,000	803,000	5,353,000	38.3%	32.6%
Occupational Health	89,100	143,000	97,000	240,000	62.3%	37.1%
Chronic Diseases	473,400	2,484,000	919,000	3,403,000	19.1%	13.9%
Vital Statistics	383,800	1,764,000	719,000(a)	2,483,000	21.8%	15.5%
Preventable Diseases	57,200	243,000	194,000	437,000	23.5%	13.1%
Solid Waste Disposal	155,000	804,000	100,000	904,000	19.3%	17.1%
Dental Health	67,700	258,000	133,000	391,000	26.2%	17.3%
	$3,404,900	$11,856,000	$5,151,000	$17,007,000		

EXHIBIT C–1—EXPLANATORY NOTES

(a) This amount includes $53,000 for data processing services furnished (and billed) by other State agencies for programs within the Division of Vital Statistics. See Exhibit D.

(b) Only one method should generally be selected by the Department of Health. The two methods shown are merely illustrative, whichever method is selected should generally be used for all Divisions/Bureaus.

(c) Brought forward from Exhibit C.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT D

This Exhibit illustrates a summary of a Consolidated State-Wide Cost Allocation Plan. It consists of two parts:

(1) Special services to specific programs—summarizing the allocation of costs which have been treated as direct charges to individual programs or projects, and

(2) General Services—summarizing the allocations of costs which lend themselves to treatment as indirect costs

The amounts allocable to the Department of Health are carried forward to Exhibits A, B and C, where they are combined with the Department of Health's own expenditures in computing its indirect cost rate(s).

Only a few of the many possible service costs have been shown in this Exhibit. A State government cost allocation plan may include any other service costs which are allowable under the cost principles, and for which documentation can be provided.

Each type of cost claimed should be supported by appropriate schedules and other documentations sufficient to provide a reasonable basis for acceptance. Because of space limitations, an illustration (Exhibit E) has been provided in this brochure for only one type of cost —Centralized Purchasing Services, furnished by the State Public Buildings and Supply Agency.

EXHIBIT D

SAMPLE FORMAT OF CONSOLIDATED STATE-WIDE COST ALLOCATION PLAN*

SUMMARY OF PLAN

STATE X

FOR THE YEAR ENDED JUNE 30, 19___

Name of Agency Furnishing Services and Type of Service	Supporting Schedule	State Agencies Receiving Services From Other Agencies (a)					
		Department of Health	Department of Education	Department of Mental Health	Department of Social Welfare	All other	Total
Special Services to Specific Programs							
Bureau of Data Processing (Data Processing of a Non-Administrative Nature)	(b)	$53,000	-------	$20,000	$25,000	$105,000	$203,000
Other	(b)	-------	$75,000	60,000	------	165,000	300,000
		$53,000	$75,000	$80,000	$25,000	$270,000	$503,000
General Services							
Public Buildings and Supply Agency (Centralized Purchasing)	EXHIBIT E	$21,000	$130,000	$15,000	$18,000	$139,000	$323,000
Civil Service Administration (Personnel Administration)	(b)	9,000	30,000	3,000	5,000	90,000	137,000
State Comptroller (Accounting Services, incl. Payrolls, Disbursing, etc.)	(b)	86,000	153,000	47,000	36,000	374,000	696,000
		$116,000	$313,000	$65,000	$59,000	$603,000	$1,156,000

(a) Separate column headings are needed only for those Departments or other organizational units which are recipients of federal grants and contracts. However, identification of the other departments should be included in the documentation supporting each type of service claimed.

(b) Because of space limitations, an illustration has been provided in this brochure only for the allocation of centralized purchasing services furnished by the state's purchasing agency.

*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

DESCRIPTION OF EXHIBIT E

This Exhibit illustrates the support for the allocation of centralized purchasing services included in Exhibit D.

Part 1 shows the costs of the Public Buildings and Supply Agency which furnishes the purchasing service to all other State agencies. In addition, this agency is responsible for the design and construction of all State buildings. Only the costs directly associated with the purchasing (and related distribution) function are considered allowable (i.e., Division of Purchasing and Division of Supply Distribution).

Part 2 shows the allocation of the $323,000 of allowable cost, in proportion to the dollar value of the supplies requisitioned during the year. Other bases for distribution may be used if more appropriate. Documentation of the percentage allocations should be submitted as part of the plan.

EXHIBIT E

SAMPLE FORMAT OF CONSOLIDATED STATE-WIDE COST ALLOCATION PLAN*

CENTRALIZED PURCHASING SERVICES
PUBLIC BUILDINGS AND SUPPLY AGENCY
STATE X
FOR THE YEAR ENDED JUNE 30, 19...

Part 1—Costs To Be Allocated	Total	Not Allowable	Allowable
Office of the Commissioner	$100,000	$100,000	-------
Division of Supply Distribution	150,000	-------	$150,000
Division of Purchasing	173,000	-------	173,000
Division of Building Design	150,000	150,000	-------
Division of Construction	300,000	300,000	-------
Total	$873,000	$550,000	$323,000

Part 2—Allocation of Costs

Basis—Dollar value of supplies requisitioned

Agency	%	Allocation
Department of Health	6.5%	$21,000
Department of Education	40.2	130,000
Department of Mental Health	4.6	15,000
Department of Social Welfare	5.6	18,000
Department of Highways	10.3	33,500
Department of Natural Resources	2.7	8,500
Department of Agriculture	5.0	16,500
Department of Commerce	3.2	10,500
Department of Motor Vehicles	2.2	7,000
Department of Labor	3.3	10,500
Other Executive Departments	14.9	48,000
Legislative	.5	1,500
Judiciary	1.0	3,000
Total	100.0%	$323,000

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*This is a sample only and is not intended to prescribe methods of charging costs. Amounts may be rounded off to the nearest $100.

APPENDIX 3

SAMPLE FORM

CERTIFICATION BY STATE BUDGET OFFICER OR OTHER RESPONSIBLE STATE OFFICIAL—STATE-WIDE COST ALLOCATION PLAN

I hereby certify that the information contained in the ______________________________
(Name of State)

State-wide cost allocation plan for the fiscal year ended ______________________________
(Month-date-year)

is correct and that the State of ______________________________ has authorized me,
(Name of State)

as its representative, to file this plan. I further certify that a consistent approach has been followed in treating a given type of cost as direct or indirect and that in no case have costs charged as direct to Federal programs been included in the indirect costs reflected in the plan which I have submitted.

____
Signature

____
Title

____
Date

APPENDIX 4

SAMPLE FORM

CERTIFICATION BY A STATE DEPARTMENT OR STATE AGENCY OFFICIAL—INDIRECT COST PROPOSAL

I hereby certify that the information contained in the ______________________________
(Name of State Dept. or Agency)

indirect cost proposal for the fiscal year ended ______________________________ is correct
(Month-date-year)

and that I am authorized to file this proposal. I further certify that procedures were utilized (a) to prevent costs from being allocated to Federal programs as indirect costs that have already been treated as direct program costs, (b) to assure that consistent treatment was accorded similar costs, and (c) to assure that costs have not been treated as indirect costs of Federal programs inconsistent with statutory restrictions governing those programs.

____
Signature

____
Title

____
Date

APPENDIX 5

SUGGESTED BASES FOR COST DISTRIBUTION

Following are suggested bases for distributing joint costs of certain central-type services to State departments or agencies and to projects and programs utilizing these services. The suggested bases are not mandatory for use if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. In selecting one method over another, consideration should be given to the additional effort required to achieve a greater degree of accuracy.

Type of Service	*Suggested Bases for Allocation*
Accounting	Total dollar volume or number of transactions processed.
Auditing	Direct audit hours.
Budgeting	Direct hours of identifiable services of employees of central budget.
Building lease management	Number of leases.
Data processing	Machine hours.
Disbursing service	Number of checks or warrants issued.
Employees retirement system administration	Dollar contributions to fund or number of employees contributing.
Insurance management service	Dollar value of insurance premiums.
Legal Services	Direct hours.
Mail and messenger service	Number of documents handled or employees served.
Motor pool costs including automotive management	Miles driven and/or days used.
Office machine and equipment maintenance repairs	Direct hours.
Office space use and related costs (heat, light, janitor service, etc.)	Sq. ft. of space occupied.
Organization and management services	Direct hours.
Payroll services	Number of employees.
Personnel administration	Number of employees or salaries and wages.
Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Total dollar volume or number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees.
Fidelity bonding program	Employees subject to bond.

APPENDIX 6

FEDERAL AGENCIES AND THEIR NEGOTIATION COGNIZANCE ASSIGNMENTS

The Department of Health, Education, and Welfare is the Federal agency responsible for the approval of State-wide cost allocation plans. Amounts (or rates) approved by the Department of Health, Education, and Welfare for apportionment to State operating departments conducting Federally supported programs will be recognized by all Federal agencies in the determination of State operating department costs chargeable against Federal programs.

A separate publication is available listing those State agencies where the Department of Health, Education and Welfare is responsible for the negotiation of indirect costs of that State's operating departments. This publication may be obtained from the Division of Grants Administration Policy at the address shown below. Federal agency responsibility will be determined on the basis of the greatest dollar amount of Federal funds received by a State in its fiscal year. State organizations receiving Federal grants and contracts requiring indirect cost determinations which are not listed in the separate publication of the Department of Health, Education and Welfare, should contact the Federal agency from which it has received the greatest dollar amount of grants and contracts (for the most current State fiscal year) for assistance. In determining which Federal agency has cognizance, the State should make a determination based on Federal funds received by a State department or agency including that department's or agency's lower tier divisions and bureaus. Changes in cognizance brought about by changes in dollar volume of activity by Federal agencies should be brought to the attention of the concerned Federal agencies. In the Department of Health, Education, and Welfare, the office responsible for indirect cost determinations is the Division of Grants Administration Policy, Office of the Assistant Secretary, Comptroller, 330 Independence Avenue, S.W., Washington, D.C. 20201. Addresses of other Federal agencies are listed below:

Chief
Finance Division
Federal Highway Administration
U.S. Department of Transportation
1717 H Street, N.W.
Washington, D.C. 20591

Deputy Director
Office of Budget and Finance
U.S. Department of Agriculture
14th and Independence Avenue, S. W.
Washington, D.C. 20250

Program Management Division
Community Action Program, Room 536
Office of Program Operations
Office of Economic Opportunity
1200-19th Street, N.W.
Washington, D.C. 20506

Assistant Manpower Administrator
for Administration
Manpower Administration
U.S. Department of

Director
Program Operations Division
Urban Management Assistance
Administration
Room 7220A
U.S. Department of Housing and
Urban Development
7th and D Street, S.W.
Washington, D.C. 20410

Director
Office of Management Inspection and Audit
U.S. Department of Justice
10th and Constitution Avenue, N.W.
Washington, D.C. 20530

Chief
Financial Assistance Policy Division
Office of the Secretary, Room 5816A
U.S. Department of Commerce
14th and Constitution Avenue, N.W.
Washington, D.C. 20230

Director of Audit
Office of Civil Defense, Room 1C-514
Office of the Secretary of the

APPENDIX 7.a.

*NOTICE OF PROVISIONAL ACCEPTANCE OF INDIRECT COST RATE(S)**

STATE DEPARTMENT/AGENCY:
Department of Health
State of . . . .
City, State

DATE March 21, 1969

FILING REF.: This replaces
Notice dated:
Not Applicable

SUBJECT: Indirect cost rate(s) for use on grants and contracts with the Department of Health, Education, and Welfare.

SECTION I: This Section shall be used for funding indirect costs on current grants and contracts. The rate(s) cited below was based on an indirect cost proposal dated February 2, 1969 for the FYE June 30, 1969

	Effective Period				*Applicable*
Type	*From*	*To*	*Rate*	*Locations*	*To*
Provisional	7/1/69	Until Amended	10.4%	All	All Programs

(a) Base: Total direct costs, less costs of equipment, major alterations, renovation of premises, and hospitalization.

Treatment of Fringe Benefits: Only vacations, holidays and sick leave pay applicable to direct salaries and wages are treated as direct costs. All other fringe benefits are treated as indirect costs.

SECTION II: This Section shall be used for processing indirect cost rates on public vouchers and reports of expenditures.

	Effective Period				*Applicable*
Type	*From*	*To*	*Rate*	*Locations*	*To*
Provisional	7/1/69	Until Amended	10.4%	All	All Programs

(a) Base: Total direct costs, less costs of equipment, major alterations, renovation of premises, and hospitalization.

Treatment of Fringe Benefits: Only vacations, holidays and sick leave pay applicable to direct salaries and wages are treated as direct costs. All other fringe benefits are treated as indirect costs.

For purposes of determining indirect costs to be applied to grant reports of expenditures, utilizing rates cited in this Section, the grantee elects Alternative 1 cited in Section III.

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*This is a sample. It has been completed for illustrative purposes only. This document is completed and signed by the Department of Health, Education, and Welfare, pursuant to negotiations conducted with the grantee. The Notice is only used to establish a provisional rate where final or predetermined rates have not previously been negotiated. Once a final or predetermined rate is established, this form is discontinued; it is replaced by the sample Negotiation Agreement form shown on Appendix 7.b.

SECTION III: Rate Alternatives

The following rate alternatives are for use on *grants* only, and are not applicable to *contracts*. The application of the rates in Section II to *contracts* will be governed by the provisions of each contract. The alternatives cited in Section II together with the applicable rate cited in Section II shall be applied consistently to all DHEW *grants*.

Alternative 1. The rate established for the fiscal period in which the grant budget year begins will be applied to the entire grant budget year.

Alternative 2. The rate established for that fiscal period in which the preponderance (in time) of the grant budget year occurs will be applied to the entire grant budget year. If the budget year falls equally in two rate periods, the rate of the earlier period will be used.

Alternative 3. The rates established for the periods in which direct expenditures are actually made will be applied to those expenditures.

SECTION IV: General

A. LIMITATIONS: Use of the rate(s) contained in this agreement is subject to any applicable statutory or administrative limitations. Acceptance of the rate(s) agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the grantee/contractor were included in its indirect cost rate proposal and that such costs are legal obligations of the grantee/contractor, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs, and (3) that similar types of costs have been accorded consistent treatment.

B. NOTIFICATION TO FEDERAL AGENCIES: Copies of this document may be provided to other Federal offices as a means of notifying them of the agreement contained herein.

C. SPECIAL REMARKS: None

(Signature)
Nathaniel H. Karol, Director
Division of Grants Administration Policy

Negotiated by Arthur M. Saunders

Telephone 202 96 23275

APPENDIX 7.b.

*NEGOTIATION AGREEMENT—INDIRECT COST RATE(S)**

STATE DEPARTMENT/AGENCY:

Department of Education
State of . . . .
City, State

DATE November 28, 1969

FILING REF.: This replaces Negotiation Agreement dated September 9, 1968

SUBJECT: Indirect cost rate(s) for use on grants and contracts with the Department of Health, Education, and Welfare.

SECTION I: This Section shall be used for funding indirect costs on current grants and contracts. The rate(s) cited below was based on an indirect cost proposal dated October 13, 1969 for the FYE June 30, 1969

	Effective Period				*Applicable*
Type	*From*	*To*	*Rate*	*Locations*	*To*
Provisional	7/1/69	Until Amended	20.9%	All	All Programs

(a) Base: Direct salaries and wages including applicable fringe benefits.

Treatment of Fringe Benefits: Fringe benefits applicable to direct salaries and wages are treated as direct costs.

SECTION II: This Section shall be used for processing indirect cost rates on public vouchers and reports of expenditures.

	Effective Period				*Applicable*
Type	*From*	*To*	*Rate*	*Locations*	*To*
Final	7/1/68	6/30/69	19.4%	All	All Programs
Provisional	7/1/69	Until Amended	20.9%	All	All Programs

(a) Base: Direct salaries and wages including applicable fringe benefits.

Treatment of Fringe Benefits: Fringe benefits applicable to direct salaries and wages are treated as direct costs.

For purposes of determining indirect costs to be applied to grant reports of expenditures, utilizing rates cited in this Section, the grantee elects Alternative 1 cited in Section III.

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*This is a sample. It has been completed for illustrative purposes only. This document is completed by the Department of Health, Education, and Welfare, pursuant to negotiations conducted with the grantee. It is signed by both the Department and the grantee. This agreement contains a history of past years' final and predetermined rates as well as current rates.

SECTION III: Rate Alternatives

The following rate alternatives are for use on *grants* only, and are not applicable to *contracts*. The application of the rates in Section II to *contracts* will be governed by the provisions of each contract. The alternatives cited in Section II together with the applicable rate cited in Section II shall be applied consistently to all DHEW *grants*.

Alternative 1. The rate established for the fiscal period in which the grant budget year begins will be applied to the entire grant budget year.

Alternative 2. The rate established for the fiscal period in which the preponderance (in time) of the grant budget year occurs will be applied to the entire grant budget year. If the budget year falls equally in two rate periods, the rate of the earlier period will be used.

Alternative 3. The rates established for the periods in which direct expenditures are actually made will be applied to those expenditures.

SECTION IV: General

A. LIMITATIONS: Use of the rate(s) contained in this agreement is subject to any applicable statutory or administrative limitations. Acceptance of the rate(s) agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the grantee/contractor were included in its indirect cost rate proposal and that such costs are legal obligations of the grantee/contractor, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs, and (3) that similar types of costs have been accorded consistent treatment.

B. ACCOUNTING CHANGES: If a predetermined rate(s) is contained in this agreement it is based on the accounting system in effect at the time the proposal was submitted. Changes to the method of accounting, including but not limited to, changes in charging a particular type of cost from indirect to direct, require the prior approval of the Director of Grants Administration Policy, DHEW. Failure to obtain such approval may result in subsequent audit disallowances.

C. NOTIFICATION TO FEDERAL AGENCIES: Copies of this document may be provided to other Federal offices as a means of notifying them of the agreement contained herein.

D. SPECIAL REMARKS: None

ACCEPTANCE:

Grantee Department of Education	(Signature) Nathaniel H. Karol, Director Division of Grants Administration Policy
By (Signature) Name	Date 11/30/69
Commissioner of Education Title	Negotiated by John L. Franklin
12/13/69 Date	Telephone 202 96 23275 26661

APPENDIX 7.c.

*NOTICE OF PROVISIONAL ACCEPTANCE OF STATE-WIDE COST ALLOCATIONS**

Date April 14, 1969

State
City, State

FILING REF.: This replaces
Notice dated:
Not Applicable

Pursuant to Attachment A, Section J.3.a. of Bureau of the Budget Circular No. A–87, the Department of Health, Education, and Welfare has provisionally approved the costs listed below, based on a State-wide cost allocation plan for the State of ________________________. These amounts were based on 7/1/67 - 6/30/68 costs (indicate fiscal period) and are to be treated as provisional costs for the State's fiscal year ended 7/30/70. The approved central support services may be included as part of the costs of the State departments or agencies indicated for further allocation to Federal grants and contracts being performed at these State departments or agencies. These costs are subject to revision when actual costs have been determined, at which time a negotiation agreement will be issued.

	State Department or Agency Benefited	*Type of Support Service Cost Distributed*	*Basis of Distribution*	*Amount*
(a)	Dept. of Health	Centralized Purchasing	Dollar value of supplies requisitioned	$ 80,000
		Personnel Administration	No. of employees	17,000
		Accounting Services	Various methods depending on type of accounting service	120,000
				$217,000

(b) Other departments with Federal grants and contracts would be listed but have been omitted in this sample form because of space limitations.

LIMITATIONS: Use of the amounts contained in this agreement is subject to any applicable statutory limitations. Acceptance of the amounts agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the State were included in its State-wide cost allocation plan proposal and that such costs are legal obligations of the State, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs on Federal programs, and (3) that similar types of costs have been accorded consistent treatment.

NOTIFICATION TO FEDERAL AGENCIES: Copies of this document will be provided to other Federal offices as a means of notifying them of the agreement contained herein.

(Signature)
Nathaniel H. Karol, Director
Division of Grants Administration Policy
Department of Health, Education and Welfare
Negotiated by A. M. Samuels
Telephone 202 96 23275

***This is a sample. It has been completed for illustrative purposes only. This document is completed and signed by the Department of Health, Education, and Welfare pursuant to negotiations conducted with the State. The Notice is only used to establish provisional amounts of indirect costs where final or predetermined amounts have not previously been negotiated. Once final or predetermined amounts are established, this form is discontinued; it is replaced by the sample form of Appendix 7.d.**

APPENDIX 7.d.

*NEGOTIATION AGREEMENT OF STATE-WIDE COST ALLOCATIONS**

Date October 9, 1970

State . . . .
City, State

FILING REF.: This replaces
Negotiation Agreement
dated October 24, 1969

Pursuant to Attachment A, Section J.3.a. of Bureau of the Budget Circular No. A-87, the Department of Health, Education, and Welfare has approved the final (final or predetermined) costs listed below, based on a State-wide cost allocation plan for the State of ______________. These amounts were based on 7/1/69 - 6/30/70 (indicate fiscal period) costs and are to be treated as final (final or predetermined) for the State's fiscal year ended 6/30/70. The approved central support services may be included as part of the costs of the State departments or agencies indicated for further allocation to Federal grants and contracts being performed at these State departments or agencies.

	State Department or Agency Benefited	*Type of Support Service Cost Distributed*	*Basis of Distribution*	*Amount*
(a)	Dept. of Health	Centralized Purchasing	Dollar value of supplies requisitioned	$ 74,500
		Personnel Administration	No. of employees	17,700
		Accounting Services	Various methods depending on type of accounting service	117,800
				$210,000

(b) Other departments with Federal grants and contracts would be listed but have been omitted in this sample form because of space limitations.

LIMITATIONS: Use of the amounts contained in this agreement is subject to any applicable statutory limitations. Acceptance of the amounts agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the State were included in its State-wide cost allocation plan proposal and that such costs are legal obligations of the State, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs on Federal programs, and (3) that similar types of costs have been accorded consistent treatment.

ACCOUNTING CHANGES: If predetermined amounts are contained in this agreement, they are based on the accounting system in effect at the time the proposal was submitted. Changes to the method of accounting, including but not limited to, changes in charging a particular type of cost from indirect to direct, require the prior approval of the Director of Grants Administration Policy, Department of Health, Education and Welfare. Failure to obtain such approval may result in subsequent audit disallowances.

NOTIFICATION TO FEDERAL AGENCIES: Copies of this document will be provided to other Federal offices as a means of notifying them of the agreement contained herein.

ACCEPTANCE:	(Signature) Nathaniel H. Karol, Director Division of Grants Administration Policy Department of Health, Education and Welfare
State of ______________	
By (Signature) Name	Date 10/23/70
State Budget Officer Title	Negotiated by Earl S. Martin
10/16/70 Date	Telephone 202 96 26661

*This is a sample. It has been completed for illustrative purposes only. This document is completed by the Department of Health, Education, and Welfare pursuant to negotiations conducted with the State. It is signed by both the State and the Department of Health, Education, and Welfare, and shows final or predetermined amounts. Additional language may be included to show the provisional amounts for use thereafter, if appropriate.

OFFICE OF THE ASSISTANT SECRETARY, COMPTROLLER

CURRENTLY EFFECTIVE INDIRECT COST AND GRANT POLICY PUBLICATIONS*

	GRANTS ADMINISTRATION—Department Staff Manual
OASC-1	A GUIDE FOR EDUCATIONAL INSTITUTIONS—Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education, and Welfare
OASC-3	A GUIDE FOR HOSPITALS—Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education and Welfare
OASC-5	A GUIDE FOR NON-PROFIT INSTITUTIONS—Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education, and Welfare

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*All of these publications are available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Prepared By:
Division of Grants Administration Policy
Washington, D.C. 20201

END 1-14-70